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NOMINATION OF ALICE M. RIVLIN

Y 4. G 74/9: S. HRG. 103-251

Nomination of Alice M. Rivlin, S. H...

HEARING

BEFORE THE

**COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
ONE HUNDRED THIRD CONGRESS**

FIRST SESSION

ON

NOMINATION OF ALICE M. RIVLIN TO BE DEPUTY DIRECTOR, OFFICE
OF MANAGEMENT AND BUDGET

JANUARY 13, 1993

Printed for the use of the Committee on Governmental Affairs



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NOMINATION HEARING OF ALICE M. RIVLIN TO BE DEPUTY DIRECTOR, OFFICE OF MANAGE- MENT AND BUDGET

WEDNESDAY, JANUARY 13, 1993

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 9:36 a.m., in room SD-342, Dirksen Senate Office Building, Hon. John Glenn, Chairman of the Committee, presiding.

Present: Senators Glenn, Levin, Sasser, Pryor, Lieberman, Dorgan, Roth, Cohen, and Cochran.

Also Present: Senator Domenici.

Staff Present: Doris Clanton, Mark Goldstein, David Plocher, Jane McFarland, Lorraine Lewis, Paul Ellis, and Deborah Cohen (Senator Glenn); Susanne Marshall, Jeff Steger, and John Mercer (Senator Roth).

OPENING STATEMENT OF SENATOR GLENN

Chairman GLENN. The hearing will be in order.

Good morning. Today the Governmental Affairs Committee meets to consider the nomination of Dr. Alice Rivlin to be Deputy Director of the Office of Management and Budget.

Dr. Rivlin is no stranger to government. She has held a number of government policy and managerial positions over the years and has served with distinction as the first Director of the Congressional Budget Office, and did an admirable job there in setting it up and running it for what was it—8 years?

Dr. RIVLIN. Eight years.

Chairman GLENN. She has had a long association also with the Brookings Institution. Dr. Rivlin is currently the Hirst Professor of Public Policy at George Mason University and is the author of several books on economics and public policy, the most recent of which is entitled, *Reviving the American Dream*.

When confirmed, Dr. Rivlin will bring to OMB extensive experience with the Federal budget as well as the intellectual perspective necessary to help challenge our existing approaches to government.

All of us know the time has come to make hard choices. We're hearing all sorts of talk; every time somebody gets on radio or television these days, it's to talk about the hard choices. And we all know that that's true. Our national debt and our Federal budget deficit must be brought down. The economy, though coming out of

recession, is moving forward slowly, with job growth inhibited by a legacy of corporate debt and downsizing.

Our rate of national capital investment, already less than one-half the investment rate of Japan and lower than our other major trading partners, continues to fall. The number of Americans without health coverage continues to rise.

For our long-term economic well-being, policies of the Treasury and the Federal Reserve will largely determine our future long-term. But for the day-in, day-out operation of government that affects every American—the matching of policy with money resources, the monitoring of stifling overregulation, the reduction of waste and abuse, etc.—the Director of the Office of Management and Budget and the Deputy is the second most powerful position in government, I believe, second only to the President himself.

The solutions to these policy problems depend to a large degree on the leadership shown by OMB. The trade-offs, the investments, the spending cuts—all the decisions that Dr. Rivlin will be involved in—will be critically important to our future.

If OMB simply takes a meat cleaver to the budget, those people who are focused more on the size of government rather than its responsibilities and quality would be happy; but I doubt if the result would be salutary. Americans expect their government to help reinvigorate the economy and strengthen public investment, and that costs money. But all of us in government, whether in the Executive or Legislative Branch, must ensure that such money is spent wisely on programs that are well thought out, effective and get the job done.

This first requires good information. Last Friday, Comptroller General Charles Bowsher reported to this Committee that most of the government's major programs are administered without the basic information needed to tell managers how effective programs are. That means that often, we don't know what programs cost, exactly who they reach, and who the major beneficiaries are. And he struggled, as Senator Roth pointed out, at that hearing to identify a Federal program that he viewed as being truly well-run and exemplary during the 11 years of his tenure at GAO. "None," that he could think of offhand, was his answer, and then added he thought the Army had made significant progress in its management practices. That was the only one he could think of.

Many of the government's programs are performing poorly because they suffer from inadequate investment in qualified people, from poor financial and general management practices, and from a rapid turnover in political appointees that undermines effective management.

What can we expect when the average tenure in office of high government officials is a mere 21 months, time to get another credit line on their resumes, but not enough time to truly do the job they were selected to do. Perhaps President-elect Clinton should be asking appointees to guarantee their remaining on the job for at least a period much longer than 21 months. I find that 21-month figure just intolerable.

Although there have been some moves in the right direction, the "M" in OMB has not had sufficient emphasis. Just a few exam-

ples—and these are not all of them by any means—from GAO testimony last Friday:

Out of \$20 billion in the Farmers Home loan program, \$7.6 billion is in default, and in most instances is just marked off the books, with new loans being made to those who just defaulted.

Student loan records are kept so poorly that GAO could not get figures together for an audit that they thought were reliable.

The same with the Pension Benefit Guaranty Corporation, PBGC; records were too poorly kept to get a reliable analysis, and that affects the retirement money for many, many working Americans with the guarantee that they will have that retirement money.

Another one—there has been an estimated \$2 billion paid by the government for Medicare costs that should have been paid by insurance companies.

Excess inventory in DOD is estimated to be worth \$40 billion—that's excess inventory—up from \$10 billion 10 years ago.

IRS receivables that could actually be collected now—not the ones that are owed by people who have gone into bankruptcy or firms that have gone into bankruptcy, but \$30 billion out there from solvent firms that should be collected now—is out there and has not been collected.

And EPA has collected only 10 percent of the \$5.7 billion classified as recoverable.

And on and on. We could go on with others. These are just a few examples. So obviously, the "M" in OMB must come to mean more than it has in the past.

Some programs are not operating effectively because of inadequate investment, also, and so no longer have the capacity to perform their public missions. And, like any undercapitalized business, the result is often failure and a waste of the investment, even if the underlying ideas and objectives are good. Determining which programs should be retained and which should be eliminated are among the tough choices facing the Clinton administration and OMB in particular.

I am particularly pleased that President-elect Clinton has nominated Dr. Rivlin to be Deputy Director of OMB, because I believe she understands the magnitude of our problems, has worked in these areas, as well as a sense of the urgency we face in finding solutions.

So I welcome Dr. Rivlin before our Committee this morning and look forward to working with you, Dr. Rivlin, in the months and years ahead.

For the record, Committee rules require that an inquiry be conducted into a nominee's experience, qualifications, suitability and integrity. I think Dr. Rivlin would agree that the Committee's investigation has been thorough and extensive.

Dr. RIVLIN. That's right.

Chairman GLENN. And I want to acknowledge Dr. Rivlin's cooperation in providing the necessary information for the Committee to complete its investigation.

The Committee has received from the nominee financial statements as well as detailed information on her educational background, employment record, and professional achievements. In ad-

dition, Dr. Rivlin has responded in writing to a number of pre-hearing questions submitted by the Committee concerning the duties and responsibilities of the OMB Deputy Director's position.

Copies of the biographical information and pre-hearing responses will be placed in the record as part of this hearing and are available upon request. The financial statements are available for inspection by the press or the public in the Committee office.

Committee investigators have also examined the financial disclosure reports submitted by the Office of Government Ethics to ensure that no conflicts of interest are present.

Finally, I want to note that Senator Roth and I have reviewed the FBI background investigation report and all other pertinent matters on Dr. Rivlin; I haven't talked to Senator Roth this morning, but I found nothing in the FBI report that I thought was of significance for this hearing this morning.

Did you have a chance to go over it, Senator Roth?

Senator ROTH. Yes, I have, Mr. Chairman.

Chairman GLENN. Fine.

PREPARED STATEMENT OF SENATOR GLENN

Good Morning. Today the Governmental Affairs Committee meets to consider the nomination of Dr. Alice Rivlin to be Deputy Director of the Office of Management and Budget.

Dr. Rivlin is no stranger to government. She has held a number of government policy and managerial positions over the years and has served with distinction as the first Director of the Congressional Budget Office.

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For our long-term economic wellbeing, policies of the Federal Reserve and Treasury will largely determine our future. But for the day-in, day-out operation of government that affects every American—the matching of policy with money resources, the monitoring of stifling over-regulation, the reduction of waste and abuse, etc.—the Director of the Office of Management and Budget and the Deputy is the second most powerful position in government, second only to the President himself.

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- Student loan records are kept so poorly that GAO could not get figures together for an audit that they thought were reliable.
- The same with the Pension Benefit Guaranty Corporation: records were too poorly kept to get a reliable analysis, and that affects the retirement money for many, many working Americans.
- There is an estimated \$2 billion paid by the government for Medicare that should have been paid by insurance companies.
- Excess inventory in DOD is estimated to be worth \$40 billion up from \$10 billion 10 years ago.
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PREPARED STATEMENT OF SENATOR McCAIN

First, Mr. Chairman, it is a privilege and honor to serve on this Committee with you. I look forward to working with you and the other members of this Committee.

I also want to thank Ms. Rivlin for appearing before the Committee today.

Mr. Chairman, I was pleased to see that when Congressman Panetta appeared before this Committee he was so forthcoming about the necessity of dealing with the budget deficit. I was also extremely pleased to hear him state that everything was on the table.

The deficit is threatening our children's future. It must not and cannot be viewed as a partisan issue. The games and the posturing, the pork barrel politics, must end. I would hope that Ms. Rivlin would use her position as Deputy Director of the Office of Management and Budget to promote economic policy that will address the real issues and problems that face our Nation. I am also hopeful she will do so in a non-partisan manner.

We must work together, the Congress and the White House, Republicans and Democrats, to address the deficit and long term economic growth for our country. I hope Ms. Rivlin will commit to such a policy of cooperation.

Additionally, if we are to truly work on this problem, and as I have said, we must or risk our children's future, everyone involved must be forthcoming and frank with the American people. Vote-getting campaign promises and other overly optimistic projections may make for good sound bites, but sound bites will not solve the deficit problem or fix our economy.

We must act. We must change the system. We must, hopefully with Ms. Rivlin's help, pass the line item veto to eliminate waste and pork, address the health care crisis and its dramatic effect on the economy, and make the tough decisions needed to get our economic house in order.

Again, I thank the Chairman for holding this hearing, and I look forward to hearing from Ms. Rivlin.

BIOGRAPHY OF ALICE M. RIVLIN

Alice M. Rivlin is one of the most respected economic policy analysts in the United States. An author, economist and veteran of many years in government, she is known for her intellectual honesty and straightforward style.

Rivlin was born in Philadelphia on March 4, 1931, and grew up in Bloomington, Indiana. She graduated from Bryn Mawr College in 1952 and earned her Ph.D. in Economics from Radcliffe College in 1958.

At 27 years old, Rivlin joined The Brookings Institution, an organization with which she is still affiliated. Beginning in 1966, she served as Assistant Secretary for Planning and Evaluation in the U.S. Department of Health, Education and Welfare. Three years later, Rivlin left HEW, returning to Brookings as a senior fellow.

Chosen by Congress to direct the new Congressional Budget Office in 1975, she is credited with shaping and defining that important office. The CBO was intended to keep track of congressional spending after President Nixon impounded funds for domestic programs he did not support. It evolved rapidly under Rivlin, and its mission now includes economic forecasting and fiscal policy, as well as cost projections and targeting of deficits and revenues. As Director of the CBO, she sometimes found herself at odds with the House and Senate Budget Committees—as well as a couple of Presidents—for her steadfast numerical honesty.

In 1983, Rivlin left the CBO and returned to Brookings, where she is a Senior Fellow in Economic Studies. She is also Hirst Professor of Public Policy at George Mason University, and was awarded a MacArthur Foundation Prize Fellowship in 1983.

Rivlin is the author of many articles and books, and is renowned for her ability to translate economists' arcane jargon into layman's English. Her most recent book is *Revising the American Dream: The Economy, the States and the Federal Government*. A regular columnist for the Los Angeles Times, she is also a frequent contributor to other newspapers, magazines and journals.

President-elect Clinton has said that cutting the budget deficit is one of his priorities, and his nomination of Rivlin reflects that sentiment. Rivlin is committed to reduction of the federal deficit and fully understands the ramifications of fiscal policy. "Economics is the focal point of public policy," she has said.

Rivlin is married to Sidney G. Winter and has three children and two grandchildren.

OFFICE OF THE PRESIDENT-ELECT AND VICE PRESIDENT-ELECT

STATEMENT OF PRESIDENT-ELECT BILL CLINTON

DECEMBER 10, 1992

As Director of the Office of Management and Budget, Congressman Leon Panetta will bring integrity to this critical office and will restore the confidence of the American people and their elected representatives that OMB is shooting straight with the Congress, shooting straight with the American people and doing its best to help us not only to have a responsible budget, but to manage the massive American government in a different and better way than ever before. As Chairman of the House Budget Committee, Leon Panetta brought a unique combination of strong leadership and superb technical skills. With Leon Panetta as OMB Director, I believe that agency can play the pivotal role we have to have to play in the swift and effective implementation of our economic plan.

I am also delighted to announce that Alice Rivlin, the former Director of the Congressional Budget Office and one of our nation's most respected budget experts, has agreed to serve as Deputy Director of the Office of Management and Budget.

Together, Alice and Leon promise to be the most dynamic team in the history of OMB, and to restore the confidence of the Congress that the executive branch is going to be a responsible partner in making the budgets of this country.

After eight years
in the Budget
Office, some say
it's time for her
to move on.

By MARTIN TOLCHIN

WASHINGTON
SPEAKER Thomas P. O'Neill Jr. approached Alice Rivlin at a cocktail party last winter and asked her to predict the inflation rate in the months ahead. Did the Speaker have any particular month in mind? she asked. "How about November?" the highly political Massachusetts Democrat said, referring to the Congressional elections.

Mrs. Rivlin replied that such a forecast was difficult to make because it depended upon many factors. Did she have a gut prediction, the Speaker asked. When pressed, Mrs. Rivlin said that she thought the inflation rate would decline by several percentage points. "That's the wrong answer," Mr. O'Neill said, a twinkle in his eye.

Alice Mitchell Rivlin has made a career of telling people what they did not want to hear. She has given "the wrong answer" to Presidents, Congressional leaders, and virtually everyone else who has a vested interest in the numbers she helps formulate as the founding director of the Congressional Budget Office. She routinely offers economic predictions that are more pessimistic than those propounded by Presidents, and has thus infuriated Richard M. Nixon, Gerald R. Ford, Jimmy Carter and, most recently, Ronald Reagan. She usually estimates the cost of their programs as considerably higher than their projections, while trimming their projected revenues and savings.

This tendency has brought Mrs. Rivlin a host of critics during her eight years at C.B.O.; so many, in fact, that many in Washington — both friend and foe of the economist — expect her to exit gracefully from the C.B.O. sometime before her second term ends in 1983.

For her part, Mrs. Rivlin is keeping mum about her plans, busying herself with the more pressing duties of challenging Administration assumptions and tossing out controversial forecasts in Washington's endless budget debate. Last February, Mrs. Rivlin crossed paths with David A. Stockman, director of the Office of Management and Budget, over the widely different projections of budget deficits calculated by the two offices. Her 1981 encounter with the Administration was even more heated.

Mr. Reagan countered Mrs. Rivlin's higher estimation of his proposed deficit last year by saying: "That's them

practicing what they've been preaching for the last 30 years. Their figures are phony." And Mr. Stockman accused the C.B.O. of failing to appreciate supply-side economics and for arguing that the Administration's "drastic policy change . . . will register on the economy like a falling tree in an empty forest: with no sound or impact."

Last year, Mrs. Rivlin was the object of a vigorous Administration campaign to find a way to dump her. But she has been the target of budget-time wrath every year since her office was established. She has routinely found herself at odds with the House and Senate Budget committees, which selected her to direct the newly created C.B.O. in 1975 and reappointed her to a second four-year term that expires next February.

In this paranoid town, Mrs. Rivlin is frequently accused of being in league with the opposition, whosoever that may be. At a seminar on the budget in Princeton, N.J., two weeks ago, Representative Delbert L. Latta, an Ohio Republican who is the ranking minority member of the Budget Committee, accused Mrs. Rivlin of being a captive of the Democrats. Former Representative Robert N. Giambo, Democrat of Connecticut and a chairman of the House Budget Committee from 1977 to 1980, thereupon sprang to her defense by saying that he had always assumed that she was the captive of the Republicans. Steven Bell, staff director of the Republican-controlled Senate Budget Committee, noted that such strongly held views were a testament to Mrs. Rivlin's integrity.

On both sides of the aisle on Capitol Hill, Mr. Reagan's accusation that C.B.O. generated "phony figures" was and still is strongly rejected. Representative James R. Jones, Democrat of Oklahoma, chairman of the House Budget committee, said that "the quality of the work that comes out of the C.B.O. is very, very good. It's more professional and reliable than what comes out of the Administration regardless of who is in office. That has to be because of the standards Alice Rivlin sets for C.B.O. figures."

Similarly, she has the support of Senator Pete V. Domenici, Republican of New Mexico, chairman of the Senate Budget committee, who fended off attacks by conservative Republicans who wanted to replace her last year. He has high praise for the professionalism of the operation. "Her numbers people, her estimators and economic assumption people do an excellent job, and are as hard-working a group as there is around," the Senator said. "They work very well under extreme pressure," he added.

Indeed, Administration officials and bipartisan Congressional leaders accepted Congressional Budget Office numbers — even though they projected a \$182 billion deficit in the absence of offsetting legislation, during

The New York Times

July 4, 1982

their abortive effort to seek a budget compromise last spring.

THE talk in Congressional cloak-rooms, however, is that Mrs. Rivlin, after eight years, has had a long tenure, and it may be time to search for a replacement whose views more clearly reflect the conservative trend of the Congress. At the same time, Mrs. Rivlin has hinted that she may be tiring of the job, and anxious to return to academe, perhaps, as some have suggested, to return to Brookings as director of economics studies.

The subject of this controversy is a diminutive, dark-haired, 51-year-old economist, who presents her views in short, pithy sentences in a flat,

CAPITOL HILL BUDGET EXPERT: Alice Mitchell Rivlin

The Bearer of Bad News Has Fewer Friends

There are some things the Government does extremely well, and there are some things the Government does poorly, especially delivery of services at the local level."

Georgianna Alice Mitchell — she disliked and later dropped her first name — was born in Philadelphia on March 4, 1931, and grew up in Bloomington, Ind., where her father was a professor of nuclear physics at Indiana University. She received her undergraduate degree from Bryn Mawr College and a doctorate in economics from Radcliffe. She married Lewis A. Rivlin, a lawyer, whom she divorced 22 years later, soon after winning the job as the first C.B.O. director.

Mrs. Rivlin came to Washington shortly before earning her Ph.D. to take a research fellowship at the Brookings Institution. "I moved to Washington in the summer of '57 with an unfinished dissertation and a five-month-old baby," she recalled. She remained at Brookings until 1966, when she was appointed deputy assistant secretary of Health, Education and Welfare for policy planning, a job she held for three years before returning to Brookings.

HER budget expertise, and her work on Brookings' influential volumes, "Setting National Priorities," made her the prime contender for the C.B.O. job when the agency was created by the Budget and Impoundment Act of 1974.

"Not too many people get to start a public agency," she said. "Until this office, Congress had to accept the Administration's numbers. They often didn't believe what the Administration was telling them in the paranoid, Post-Watergate era. Congress clearly needs an agency it has confidence in, that works for it."

Starting a new agency meant more than deciding the size of the staff (now 218), or the size of the budget (\$12 million). It meant determining the scope and content of the work.

"The most important decision we made was not to make recommendations," Mrs. Rivlin said. "We always operate in the mode of options and alternatives. We also had to establish that we were a nonpartisan agency."

Thus, at Congressional hearings, Mrs. Rivlin always refuses to give policy recommendations. Instead, her agency lists hundreds of ways to cut costs and raise revenues, indicating the amount to be saved or raised by each option. This sets C.B.O.'s procedures apart from the General Ac-

counting Office, the investigative arm of Congress, which does make recommendations.

The fledgling agency encountered hostility almost from its inception. "It was an often-hostile political environment, because the budget process threatened existing power relationships," she recalled. The appropriations committees, which lost some of their formidable power with the creation of the Budget Act, had to approve the operating budgets for the Congressional Budget Office. "They were difficult and sometimes acrimonious hearings," she recalled. "They were questioning why we were there, why the Congress needed us."

Although some members of Congress were miffed, Mrs. Rivlin cannot recall a time when they interfered with her professional work. "Congress has fussed at us, but never tried to change the numbers," she said. "Nobody's ever picked up the phone and said, 'change those numbers.' It was an amazing amount of forbearance."

Less forbearing were the Presidents she antagonized. "Administrations always take the optimistic end of the range of uncertainty," she said. "We don't. We take the middle range." Thus, when President Carter introduced his energy plan, C.B.O. reported that the Administration had overestimated its savings. "It made the Carter Administration unhappy," she recalled. "It also made the Speaker unhappy. He was fighting for the legislation, and the C.B.O. wasn't helping."

Independent in her professional career, Mrs. Rivlin also showed independence in her private life. There were, for example, monthly dinners of what came to be known as the "Smart Women's Club," in which Mrs. Rivlin, Donna Shalala (then an assistant Secretary at Housing and Urban Development who is now president of Hunter College) and Meg Greenfield (editor of the editorial page of the Washington Post) invited distinguished women to join them for conversation and comestibles at chic restaurants.

For her, economics is more than just numbers. "Economics is the focal point of public policy," she said. Thus, all budgets are political documents.

Whatever her future, she remains committed to the budget process, which requires that Government set its spending priorities. "I just think it's very important for Government to make its decisions in an orderly way, with as much information as possible," she said. ■

unemotional manner. She thus makes a difficult target at committee hearings, deflecting those who seek to identify her as a liberal, Keynesian Democrat.

"I think of myself as a very middle-of-the-road person," she said in an interview in her office a brisk walk from the Capitol, her customary means of transportation. "I believe in the effectiveness of government, and have a general prejudice toward market selection — more competition, less regulation. I've been consistently concerned about reducing the complexity of Government."

"The Government is trying to do too much," she said, reminding one of a prime tenet of the Reagan philosophy.

BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED OF NOMINEES

A. BIOGRAPHICAL INFORMATION

1. Name: (Include any former names used.)
Alice Mitchell Rivlin
Maiden name: Georgianna Alice Mitchell
2. Position to which nominated:
Deputy Director, U.S. Office of Management and Budget
3. Date of nomination:
Not yet known.
4. Address: (List current place of residence and office addresses.)
Residence: 2838 Chesterfield Place, N.W., Washington, D.C. 20008
Office: The Brookings Institution, 1775 Massachusetts Avenue, N.W., Washington, D.C. 20036-2188
5. Date and place of birth:
March 4, 1931; Philadelphia, Pennsylvania
6. Marital status: (Include maiden name of wife or husband's name.)
Married: Sidney Graham Winter
7. Names and ages of children:
Daughter: Catharine Amy Rivlin, 35.
Sons: Allan Mitchell Rivlin, 33; and Douglas Gray Rivlin, 29.
8. Education: List secondary and higher education institutions, dates attended, degree received and date degree granted.
Radcliffe College, 1953-57; Ph.D. in Economics, 1958; M.A. in Economics, 1955
Bryn Mawr College, 1948-52; B.A. in Economics, 1952
Madeira School, 1944-48; High School Diploma, 1948
9. Employment record: List all jobs held since college, including the title or description of job, name of employer, location of work and dates of employment. Please use separate attachment, if necessary.)
1/92-present: Hirst Professor of Public Policy
George Mason University, Fairfax, VA (on leave from Brookings Institution)
1987-present: Senior Fellow, Economic Studies
Brookings Institution, Washington, D.C. (on leave of absence since 1/92)
Spring Semester 1988: Visiting Professor, John F. Kennedy School of Government, Harvard University. Cambridge, MA
1983-87: Director, Economic Studies, Brookings Institution, Washington, D.C.
1975-83: Director, Congressional Budget Office, Washington, D.C.
1969-75: Senior Fellow, Economic Studies Program Brookings, Institution, Washington, D.C.
1971: Editorial Writer, *The Washington Post* (4 months leave from Brookings Institution)
1968-69: Assistant Secretary for Planning and Evaluation, U.S. Department of Health, Education and Welfare, Washington, D.C.
1966-68: Deputy Assistant Secretary for Program Coordination, U.S. Department of Health, Education and Welfare Washington, D.C.
1958-66: Economist, Economic Studies Program, Brookings Institution, Washington, D.C.
1961-62: Staff Member, Advisory Commission on Intergovernmental Relations (on leave from Brookings Institution)
1957-58: Research Fellow, Economic Studies Program Brookings Institution, Washington, D.C.
1954-57: Teaching Fellow and Tutor in Economics Harvard University, Cambridge, MA
1952-53: Research Assistant, U.S. Mutual Security Agency, Paris, France

10. Military Service: List any military service, including dates, rank and type of discharge.

None.

11. Government experience: List any advisory, consultative, honorary or other part-time service or positions with Federal, State, or local governments, other than those listed above.

1983-92: Panel of Economic Advisers, Congressional Budget Office

1989-90: Chair Commission on Budget and Financial Priorities of the District of Columbia

12. Previous Appointments: Prior to this appointment, have you ever been nominated for a position requiring confirmation by the Senate? If so, please list each such position, including the date of nomination, Senate confirmation, and Committee hearing, if any.

Yes.

Assistant Secretary for Planning and Evaluation, U.S. Department of Health, Education and Welfare

Senate Finance. No hearing. Date of nomination: May 1968 Senate confirmation: June 1968.

13. Business relationships: List all positions held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, or other business enterprise, educational or other institution.

Director, Ryder Systems, Inc.

Director, Union Carbide Corporation

Director, Unisys Corporation

Director, TJ International

Director, Eugene and Agnes E. Meyer Foundation

Member, Governing Council, The Wilderness Society

Director, D.C. Service Corps

Los Angeles Times Board of Economists

Consultant, KPMG Peat Marwick (on contract with Government of North Carolina, 1992)

14. Memberships: List all memberships and offices held in professional business, fraternal, scholarly, civic, public, charitable and other organizations.

American Economic Association

Committee for A Responsible Federal Budget

Council on Foreign Relations

Madeira School Alumnae Association

Bryn Mawr Club of Washington

Washington Women Outdoors

Radcliffe Club of Washington

15. Political affiliations and activities:

(a) List all offices with a political party which you have held or any public office for which you have been a candidate.

None.

(b) List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Occasional consultation on issues with Clinton Campaign, 1992

(c) Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more for the past 5 years.

1990	Amount
Emily's List	\$1,000.00
Ann Richard's Committee (Texas)	350.00
Josie Health for Senate (Colorado)	500.00
Kane for Congress (Washington, D.C.)	300.00
Hoosiers for Long (Indiana)	500.00
Mikulski for Senate (Maryland)	100.00
Patsy T. Mink Campaign Committee	250.00
Bellamy for the '90s (New York)	500.00
Jolene Unsoeld Campaign	500.00
Committee for Tim Wirth	400.00
William Golden Committee (Mass.)	300.00
Committee to Re-elect Wayne Owens	100.00
Bill Gray '90 Committee	100.00
Sandy Scofield for Congress	500.00
Friends of Connie Morella	250.00
Rhodes for Congress Committee	150.00
Citizens for Eleanor Holmes Norton	250.00
Friends of Sen. Carl Levin	1,000.00

1991	Amount
Friends of Jim Moody	100.00
Friends of Connie Morella	100.00
Citizens for Eleanor Holmes Norton	500.00
Jim Hunt Committee	500.00
Citizens for Senator Wofford	500.00
Ferraro for Senate	100.00
Wholey for State Legislature	500.00
Yrun for Congress Committee	500.00
Mikulski for Senate	500.00
Leo J. Corbett Committee	100.00

1992	Amount
Democratic National Committee	1,000.00
Emily's List	3,000.00
Levin for Congress	500.00
Sanford for Senate	100.00
Hoosiers for Long	100.00
Mikulski for Senate	100.00
Jim Jontz for Congress	100.00
Owens for Senate committee	500.00
Yeakel for Senate	500.00
Ebhoo for Congress	500.00
Friends of Jim Moody	100.00
Boxer for Senate	500.00
Unsoeld Campaign	100.00
D.C. Dollars for Democrats	30.00

Note: Contributions for 1988 and 1989 will be provided.

16. Honors and awards: List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals and any other special recognitions for outstanding service or achievements.

1983-87: MacArthur Foundation Prize Fellowship

1984: LLD, Yale University

1976: Doctor of Science, University of Indiana

1975: LLD, University of Maryland

1975: LLD, University of Michigan

17. Published writings: List the titles, publishers, and dates of books, articles, reports, or other published material which you have written. It would be helpful for the Committee to have three copies of each published writing, Please denote any of those for which you are unable to provide copies.

See Tab A.

18. Speeches: Provide the Committee with three copies of any formal speeches you have delivered during the last 5 years of which you have copies and ace on topics relevant to the position for which you have been nominated.

None.

19. Congressional Testimony: Have you ever testified before a Committee of the Congress? If so, please provide details, including date(s).

See Tab B.

20. Selection:

(a) Do you know why you were chosen for this nomination by the President?

I believe I was chosen because I have extensive experience in federal budget and policy issues.

(b) What do you believe in your background or employment experience affirmatively qualifies you for this particular appointment?

As the Founding Director of the Congressional Budget Office (CBO), I built a strong budget agency and ran it successfully for 8 years. I also have experience running planning and evaluation in the Department of Health, Education and Welfare, and have written and lectured extensively on public policy, especially economic and budget policy at the federal level.

B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, business associations or business organizations if you are confirmed by the Senate?

Yes.

2. Do you have any plans, commitments or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, explain.

No.

3. Do you have any plans, commitments or agreements after completing government service to resume employment, affiliation or practice with your previous employer, business-firm, association or organization?

No.

4. Has anybody made a commitment to employ your services in any capacity after you leave government service?

No.

5. If confirmed, do you expect to serve out your full term or until the next Presidential election, whichever is applicable?

Yes.

C. POTENTIAL CONFLICTS OF INTEREST

1. Describe all financial arrangements, deferred compensation agreements, and other continuing dealings with business associates, clients or customers.

None.

2. Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated

Once my securities are in a qualified diversified trust or blind trust, I do not expect any conflicts.

3. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

None.

4. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defect or modification of any legislation or affecting the administration and execution of law or public policy.

I have been a member of the Governing Council of The Wilderness Society, an organization which supports legislation to protect wilderness and the environment.

5. Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Please provide copies of any trust or other agreements.)

I do not now anticipate conflicts.

6. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the agency to which you are nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position?

Yes.

D. LEGAL MATTERS

1. Have you ever been disciplined or cited for a breach of ethics for unprofessional conduct by, or been the subject of a complaint to any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

No.

2. Have you ever been investigated, arrested, charged or held by any Federal, State, or other law enforcement authority for violation of any Federal, State, county or municipal law, regulation or ordinance, other than a minor traffic offense? If so, provide details.

No.

3. Have you or any business of which you are or were an officer ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

Companies of which I have been a director have been involved in such proceedings and litigation frequently.

4. Have you ever been convicted (including pleas of guilty or nolo contendere) of any criminal violation other than a minor traffic offense?

No.

5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

None.

PRE-HEARING QUESTIONS FOR ALICE M. RIVLIN TO BE DEPUTY DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

I. NOMINATION PROCESS AND POTENTIAL CONFLICTS

Question 1. Were any conditions, expressed or implied, attached to your nomination to be Deputy Director of the Office of Management and Budget (OMB)?

Answer. No.

Question 2. Have you made any commitments with respect to the policies and programs you will attempt to implement as Deputy Director of OMB? If so, what are they?

Answer. I have made no such commitments.

Question 3. Are there any issues involving OMB from which you may have to disqualify yourself? If so, please explain.

Answer. I believe there are no issues involving OMB from which I will be required to disqualify myself.

II. ROLE AND RESPONSIBILITIES OF THE OMB DEPUTY DIRECTOR

Question 1. What do you consider your primary responsibilities and priorities to be as OMB Deputy Director?

Answer. My primary responsibilities and priorities as Deputy Director of OMB would be to support and assist the Director in carrying out the functions of OMB and to act for the Director when he is absent.

Question 2. What do you envision your relationship and the nature of your responsibilities to be as they relate to: (a) the Director of OMB; (b) the Deputy Director for Management; (c) the Administrator of the Office of Information and Regulatory Affairs (OIRA); (d) the Administrator of the Office of Federal Procurement Policy (OFPP); and (e) the Associate Directors of OMB?

Answer. Under OMB's governing statute, (as amended by the CFOs Act) the Deputy Director carries out the duties and powers prescribed by the Director and acts as the Director when the Director is absent or when the office of Director is vacant. The Deputy Director for Management, subject to the direction and approval of the Director, performs functions related to financial and general management, and any other functions prescribed by the Director.

Thus, the focus of the Deputy Director's responsibilities is any OMB matter assigned by the Director. Also, the Deputy Director must be prepared to act in the absence of the Director. The Deputy Director for Management's responsibilities are focused statutorily on management matters.

The Deputy Director's duties are not statutorily confined to non-management areas. Similarly, while the focus of the Deputy Director for Management is, of course, management, that function cannot be isolated from the other functions of OMB. The Administrators of the Office of Information and Regulatory Affairs and the Office of Federal Procurement Policy are positions at Level III of the Executive schedule. They report to the Director/Deputy Director/Deputy Director for Management level of OMB. This is also true of the Associate Directors of OMB, which are SES positions.

Effective management of OMB depends on a good working relationship among the top officials of the agency. It requires teamwork and good communication. My hope is that we can put together a strong collegial management team that will work together effectively under the leadership of Director Designate Panetta.

Question 3. What role do you anticipate playing in the selection of individuals for appointive positions in OMB which are not subject of Senate confirmation?

Answer. As Deputy Director of OMB, I would expect to provide advice to the Director, who is responsible for appointing such OMB officials. I would seek to ensure that all of the individuals appointed to senior positions at OMB are eminently capable and reliable. The qualifications of political appointees will, of course, be subject to White House review.

Question 4. In the past, OMB's career staff has been characterized as providing "neutral competence" in its advice to the President. Now, however, OMB is perceived more as an Administration advocate than as a source of objective analysis.

What are your views on this perception? What actions would you propose to improve OMB's reputation for neutral competence?

Answer. I am strongly committed to ensuring that OMB provides the Clinton administration and the Congress with realistic and reliable budget information. In my contacts with OMB career staff, I have generally found them to be knowledgeable, professional and objective. I will work hard with Director Designate Panetta, the top management of OMB and the career staff, to restore OMB's reputation as a source of credible and accurate estimates and analysis.

Question 5. Do you see any need to revise OMB's organizational structure?

Answer. At this early date, I do not see any immediate need to reorganize OMB. We will be reviewing the organization of OMB and the current allocation of internal resources to ensure that they are in accord with the Clinton Administration's policies and priorities. Depending on the results of this review, some organizational changes and reordering of priorities could be appropriate.

Question 6. President-elect Clinton has stated his intention to create a National Economic Council. What are your views on the role of this Council, its relationship to OMB, and your role in it, as Deputy Director of OMB?

Answer. I am not prepared to say at this point precisely how the National Economic Council will function. OMB would, of course, work cooperatively with the Council and assist in ensuring that the Council works smoothly and efficiently.

III. ECONOMIC AND BUDGET POLICY

Question 1. What are your projections for economic growth and the unemployment rate over the next four years if baseline budget policies are maintained?

Answer. Most fore-casters expect moderate growth (around 3 percent per year real GDP growth) accompanied by a slowly declining unemployment rate. The expansion is likely to be more subdued than past recoveries because of the lingering structural problems inherited from the 1980s and slow growth in our export markets. These include the large Federal deficit, excessive private sector indebtedness, the overbuilding of commercial real estate, and slow productivity and income growth.

Economic Forecast Comparisons

	1993	1994	1995	1996
Real GDP Growth (Q4/Q4)				
Blue Chip Consensus.....	3.0	2.9	2.5	2.5
DRI.....	2.7	3.0	2.5	2.9
L. Meyer	3.2	2.8	2.8	2.8
Unemployment Rate (%)				
Blue Chip Consensus.....	7.2	6.4	6.1	5.9
DRI.....	7.2	6.6	6.1	5.8
L. Meyer	6.0	6.4	6.0	5.6

Question 2. What new budget policies would you favor to affect economic growth and unemployment, and how might these policies change the economic forecast? How might these policies affect the budget? How might these policies affect prospects for renewed inflation?

Answer. Since President-elect Clinton has not made final decisions on his economic program and budget proposals, it is impossible for me to discuss the new administration's strategy for increasing growth and lowering unemployment with any specificity. The dilemmas facing the new administration and Congress, however, are abundantly clear.

The economy is currently operating well below capacity and unemployment is high. Hence, a strong case can be made for using government spending programs and tax incentives to accelerate the return to production at capacity levels. With considerable slack in the economy, the near-

term inflationary effects of using fiscal policy to stimulate the economy would probably be small.

Looking beyond the next couple of years, however, the overriding objective of economic policy must be to increase capacity itself. Only if productivity grows more rapidly will living standards begin rising faster. Increasing productivity requires not only effective public investment but also substantial reduction in the federal deficit, which absorbs national saving and inhibits private investment.

Hence, the President and the Congress must work together to devise a plan that improves the prospects for faster recovery from the recession and also increases the probability of future federal deficits coming down.

Question 3. What are your views on cutting the unemployment rate in the next four years?

Answer. Unemployment is too high. The civilian unemployment rate was 7.3 percent last year, its highest level since 1984. Unemployment continued to rise even after other measures of economic activity turned around, and job gains have remained very small. The main reason for the poor employment performance has been the slow rate of economic growth in the current recovery. Achieving a higher rate of growth will help reduce the jobless rate. A one percentage point increase in the annual growth rate would be expected to reduce the overall unemployment rate by about one-half percentage point annually.

Question 4. For the past two decades, U.S. productivity growth has been below historical norms, resulting in slower growth of private income and public revenues. What policies do you believe would accelerate productivity growth? How would these policies affect the budget?

Answer. Strong productivity growth is essential to restore growth in our living standards and generate the tax revenues to reduce the Federal deficit. From 1948 to 1973, labor productivity grew 2.5 percent per year; since then, it has averaged just 0.8 percent.

During the earlier period, real disposable income per capita rose 2.4 percent per year. Since 1973, it has increased only 1.3 percent per year. Had the 1948-1973 productivity trend been maintained during the last two decades:

—Our standard of living would now be 35 percent higher.

—The higher income could have generated sufficient Federal revenues to push the 1992 budget balance from a deficit of \$290 billion to a surplus of \$370 billion. This swing results from \$375 billion higher revenues and \$285 billion lower net interest payments, assuming other things are unchanged. It is unlikely that such a surplus would have materialized because a dramatically improved fiscal position would have permitted tax cuts and/or spending increases.

The most important measures the government can take to encourage productivity are those that promote investment:

- Reduce the Federal deficit so that more resources can be devoted to private capital formation;
- Provide additional incentives to business investment in new plant and equipment;
- Shift public sector priorities toward investment with high social rates of return—such as R&D and education.

Faster productivity growth would have a noticeable effect on the Federal deficit. At current levels of debt, a one percent per year higher productivity trend would lower the deficit after six years by \$112 billion.

Question 5. Please explain how you see fiscal policy interacting with monetary and trade policies under President Clinton.

Answer. Fiscal, monetary and trade policies are interconnected and must be well coordinated to reinforce, not negate each other. The long-run objective of the Clinton administration's fiscal policy should be to improve the prospects for economic prosperity by reducing the federal deficit in order to bring down long term interest rates and increase capital formation. Attaining this objective, however, could be frustrated by a decision of the Federal Reserve not to offset the contractionary effects of deficit reduction with accommodating monetary policy. Strong deficit-reducing action, however,

would likely encourage the Federal Reserve to hold down interest rates by reducing fear that lower rates will ignite a higher rate of inflation.

The association between budget and trade deficits is indirect and there are other forces that affect the relationship between the two. The marked deterioration in the budget deficit in the first half of the 1980s coincided with high real domestic interest rates that led to a sharp dollar appreciation and a widening of the U.S. trade deficit. The narrowing of the current account deficit since 1987, however, has occurred despite continued large budget deficits. This reflected a realignment of major currencies, a slowdown in U.S. growth, and a rebound in growth in debt-burdened Latin American countries.

Question 6. What are your views on the impact of the Federal budget deficit on the U.S. economy, both in the short and long-term?

Answer. In the long run, the main effect of a persistent deficit is to reduce the rate of private capital formation, thereby lowering economic growth and reducing the rate of increase in the standard of living. These effects reveal themselves only gradually. In the short run, policies that increase the deficit can be stimulative, but short-run deficit increases risk exacerbating the long-run deficit problem.

Net private investment as a share of real GDP declined from about 7.9 percent in the 1960s to about 3.8 percent in the 1980s. The poor investment performance of the last decade was partly due to the deteriorating budgets which led to high real interest rates. In the 1980s, the long-term real rate on Treasury securities, adjusted for expected inflation, averaged around 4½ percent, about 50 percent higher than in the 1960s and 1970s. Currently, long-term real rates remain high despite declines in nominal rates, and there is a wide gap between short-term and long-term interest rates. This gap appears to reflect concerns about the future prospects for deficit reduction.

The diversion of savings from private investment would have been less costly to the economy if the government had used the borrowed funds to increase its investments, but the rate of Federal investment did not increase in the 1980s.

Question 7. Some observers maintain that cutting the deficit will require a tax increase. In addition to deficit reduction, President-elect Clinton has proposed new spending initiatives amounting to billions of dollars. Some tax increases have been suggested—such as a higher marginal tax rate on upper-income taxpayers—but critics claim these revenues will not be sufficient to pay for deficit reduction and any new program initiatives. What revenue increases would you favor to pay for the Clinton program over the next four years?

Answer. The underlying deficit in the federal budget is so large that bringing it under control will require all major segments of society to contribute to a sustained deficit reduction effort. Both discretionary and entitlement spending must be curtailed and additional revenue must be raised. A broad range of spending cuts and tax increases should be explored.

Question 8. If it becomes necessary to seek additional revenue—beyond that which you foresee today—what kinds of revenue increases would you favor looking at? What are your views on and would you recommend increased consumption taxes as opposed to income taxes?

Answer. If additional revenues are needed, a variety of taxes should be considered and judged by several criteria. First, additional revenues should be obtained from taxes that are regarded as fair and equitable. In particular, disproportionate burdens should not be placed on low income people. Second, taxes should be designed to discourage activities that society wants to minimize, such as pollution, not activities that society wants to encourage, such as work and saving. Third, taxes should be as simple and easy to enforce as possible.

Question 9. Under the 1990 Budget Agreement, a significant percentage of the savings in Federal spending are due to be captured in fiscal years 1994 and 1995. What efforts do you believe are needed to achieve these savings?

Answer. The 1990 budget agreement achieved savings by capping discretionary spending in FY 1991 through 1995, and by legislation increasing revenues and reducing mandatory spending.

For FY 1991-1993 there were separate caps on domestic, defense and international discretionary spending. For FY 1994 and 1995 there is only one cap on total discretionary spending. The caps are about \$29 billion in BA and \$16 billion in outlays below OMB's preliminary estimate of the baseline for discretionary programs in FY 1994. Although the cuts required in FY 1994 are large, greater savings were achieved in FY 1993, when the final appropriations were \$46 billion in BA and \$26 billion in outlays below the OMB baseline.

Deficit savings from legislation increasing revenues and reducing mandatory spending are protected by the pay-as-you go provisions of the Budget Enforcement Act. Pay-as-you-go establishes a requirement that covered legislation be deficit neutral.

Question 10. What budget and tax policies do you believe are most effective in increasing our nation's economic competitiveness? Please describe your views on the recommendation of Strengthening of America Commission, of which you were a member, to abolish the present tax code and enact progressive consumption-based income taxation that would exempt savings and investment.

Answer. The progressive consumed-income tax suggested by the Strengthening of America Commission is designed to deal with the dilemma described in my answer to question 8 (above); namely, how to tax consumption in a non-regressive manner. Under a consumed-income tax, a taxpayer would be able to subtract from income his/her net increase in saving. Those who were net savers would pay less tax than now (assuming the same rates) and those who were spending their previous savings would pay more. Rates could be progressive.

In principle, a consumed-income tax has great appeal, but there are formidable technical and transition problems involved in moving from the current income tax system to a consumed-income tax. Older people now living on past savings, for example, could not in fairness be asked to pay twice on the same savings. Personally, I question whether the complexity and disruption involved in switching from the existing income tax to a consumed-income tax is worthwhile. The evidence that saving behavior is affected by taxation is sketchy and inconclusive.

Question 11. In your book, *Reviving the American Dream*, you cite the increasing lack of public and private savings as a major impediment to increasing productivity and our nation's standard of living. What policies and specific actions would you favor to increase public and private savings?

Answer. The U.S. has by far the lowest household saving rate among the G-7 countries (table below). Combined with the large fiscal deficit, net national saving as a share of GDP is also the lowest among our major competitors. This lower saving is a factor in the subnormal productivity growth of the last two decades.

Comparison of G-7 Saving Rates in 1990

	National Saving as Percent of GDP	Household Saving as Percent of Disposable Income
Japan	34.4	13.6
Germany.....	25.0	13.9
France.....	21.1	12.2
Italy	19.5	16.1
Canada	18.0	10.4
United Kingdom.....	15.6	9.0
United States	14.3	5.2

It is hard to be sure what public policies would increase the private saving rate. A variety of policy changes were made in the 1980s that proponents hoped would increase saving (IRAs, cuts in marginal income tax rates, higher interest rates), but the private saving rate declined. Moreover, even if specific tax breaks for savers are successful, they may reduce government revenue (and thus reduce public saving) by more than the increase

in private saving. Hence, one of the most effective ways for the federal government to increase national saving is to reduce the federal deficit.

Question 12. Revenues currently represent 18.6% of GDP. How much as a percentage of GDP should the government collect in revenues? What percentage of GDP do you think should represent a ceiling for revenues?

Answer. I do not believe there is any magic number or ceiling that revenues must stay below. In general, revenues should cover expenditures. In recent years, the American public has demanded more spending from the federal government than it has been willing to pay for. The gap should be reduced, either by cutting spending or raising revenues or some of each.

Question 13. Do you believe that it is necessary to reduce entitlement spending below the current baseline to achieve the deficit-reduction goal? What specific cuts in entitlements do you support?

Answer. Entitlement programs or mandatory spending make up nearly half the budget (without even counting net interest in mandatory spending). Health programs are growing most rapidly and account for much of the rise in the structural budget deficit projected in the second half of the decade. Hence, I believe it will be necessary to reduce the growth of entitlements, especially health care, if the deficit is to be reduced. Various approaches to containing entitlement costs, especially the growth of health care costs, are being considered by the Clinton team.

Question 14. Poverty has been growing throughout the last decade, and the recent recession has exacerbated the problems faced by many low-income Americans. In any deficit reduction approach, would you propose measures that protect programs that assist the least well-off?

Answer. Congress has shown consistent bi-partisan concern for cushioning the effects of deficit reduction on low-income Americans. Both the current Budget Enforcement Act and the predecessor Balanced Budget and Emergency Deficit Control Act (Gramm-Rudman-Hollings) provided special treatment for most means-tested transfer programs, as well as some non-means-tested transfers. Under BEA, low-income direct spending programs such as AFDC, SSI, food stamps, and Medicaid are exempt from sequestration. The Earned Income Tax Credit, which is especially important for low-income working families with children, also is unaffected by sequestration.

Programs to assist the poor need to be reexamined to ensure that they are meeting their goals effectively. Efforts to reduce the deficit by cutting spending across the board, however, should continue to protect those least able to bear the cost of cuts.

Question 15. What are your views on the recommendation of the strengthening of American Commission to phase in a cap on spending on non-Social Security mandatory programs.

Answer. The PAYGO process is designed to retain the savings achieved in OBRA90. It requires that direct spending and receipts legislation be, in total, deficit neutral. Several proposals have been made to add a mandatory "cap" enforcement procedure to address the growth in current law mandatory spending. Most of the proposals would limit growth beyond that which can be explained by changes in general prices levels and beneficiaries.

A mandatory cap on entitlements sounds simple and is intuitively appealing because it appears to be a way of controlling the huge growth of mandatory spending that is projected to occur under current law. However, I do not believe such a cap would be workable.

The main disadvantage of the cap is that it does not focus on programs responsible for the rapid growth in mandatory spending. A sequester would lead to across-the-board reductions when most entitlements are not experiencing rapid growth beyond that which can be explained by changes in general prices and beneficiaries. In addition, the cap does not allow for trade-offs between revenue increases and mandatory program spending. Finally, although the cap sounds simple it considerably complicates an already complex process.

Question 16. What are your views on the savings possible from military downsizing? What are your views on the recommendation of the Strengthening of America Commission to reduce defense spending from 20 percent to 13 percent of the Federal budget?

Answer. One of the biggest challenges facing the new Administration is how best to restructure the nation's military forces to meet the new threats and opportunities of the post-Cold War world. A variety of plans, involving different types of forces and different cost savings, are being explored. It would be premature to discuss specific proposals.

Question 17. The costs of the health-care program—Medicare and Medicaid—are growing rapidly; the Congressional Budget Office (CBO) projects them to rise from 3.5 percent of GDP in 1992 to 6.1 percent in 2002 under current policies. Do you believe that it is necessary to restrain the growth of these costs? If so, how would you propose to do it?

Answer. We cannot sustain the growth of Medicare and Medicaid or, for that matter, national spending on health care. Since 1985, Medicare and Medicaid have grown an average of 7.6% and 17.4% each year, respectively. Growth of these two programs has outstripped spending increases in virtually every other Federal spending category and is a major cause of growing budget deficits.

Spending on Medicare and Medicaid, however, is a symptom of the growing share of our nation's income—1 of every 8 dollars in 1992—devoted to health care. Families bear increasingly higher costs for their health care through cost sharing and lower take home pay. Many fear they may not be able to afford health care when they need it most. U.S. health care costs exceed those of any other nation and make it difficult for our nation's businesses to compete. In many industries, health care has become the most costly factor of production. State governments are challenged to find the revenues to finance health care for the low income. Several states are cutting back on Medicaid benefits.

Medicare and Medicaid spending growth will be addressed in the context of overall health care reform. These programs are at the intersection of three of President-elect Clinton's most important challenges: burgeoning health care costs, growing budget deficits, and slow economic growth. The costs of Medicare and Medicaid cannot and should not be addressed in isolation. It is premature to identify specific proposals that will affect Medicare and Medicaid spending. They will be part of a comprehensive strategy for health care reform, deficit reduction, and long-term economic improvement.

Question 18. Which do you believe would be the more cost-effective way to stimulate faster income and productivity growth: (1) greater Federal spending on physical and human capital (which might induce greater private investment); or (2) tax preferences for private investment such as investment credits or accelerated depreciation? Please explain.

Answer. A multi-pronged strategy is needed to increase productivity and raise future living standards. Public investment must play a role. Improving the nation's infrastructure, especially in transportation and communications, can enhance productivity directly and spur productivity-improving private investment. Enhancing the skills and flexibility of the present and future labor force is at least equally important and will take both public and private effort.

Long-run deficit reduction must also be part of such a strategy. Reducing the nation's savings can reduce real interest rates and stimulate both private and state/local investment.

Tax preferences for private investment can also play a role, but should be used with restraint. Such preferences can distort investment choices and exacerbate the budget deficit by reducing federal revenues.

Question 19. In a commentary in the Spring 1990, issue of Brookings Review, you argued against reducing the Social Security payroll tax, saying that returning to pay-as-you-go funding would result in a big increase in payroll taxes around the year 2010. In addition, you stated that if benefits at the time are paid by drawing down social Security reserves, general revenues will have to be raised to redeem the Treasury bonds, which make up the reserves. What are your current views on the likelihood that no taxes will have to be raised in order to pay these benefits when the baby boomers retire? Do you continue to oppose a reduction in the payroll tax?

Answer. The point I was making was that Congress acted wisely in 1983 when it passed legislation to prefund the costs of the baby boom generation's retirement by building reserves in the social security trust funds. Unfortunately, those reserves are being borrowed by the Treasury to finance the large deficits in the rest of the federal budget. I believe that the solu-

tion to this problem is not to reduce the payroll tax and return to pay-as-you-go financing of social security; it is to reduce the federal deficit.

When the baby boom generation retires, additional constraints will be placed on the system. However, the cost of that large group of beneficiaries to the economy will be easier to bear if productivity increases rapidly and incomes grow.

IV. BUDGET PROCESS

Question 1. In terms of the specific budget procedures adopted to reduce the budget deficit, could you comment separately on the effectiveness of the Balanced Budget and Emergency Deficit Control Act of 1985, the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987, and the Budget Enforcement Act of 1990. Given your views on these deficit reduction efforts, what steps do you believe are necessary to achieve a credible deficit-reduction plan and actually carry it out?

Answer. GRH 1 and 2 were useful for two reasons: (1) they forced Congress and the President to focus attention on the deficit and (2) they institutionalized the notion of budget enforcement. However, both failed to eliminate the deficit. The failure was, in part, because there was no consensus on how the required reductions would be achieved, and partly because the deficit targets were fixed and proved to be too ambitious as subsequent reestimates increased the baseline deficits.

The BEA was a major improvement over GRH. The President and the Congress agreed to achieve about \$500 billion in savings over the period 1991 to 1995. Most of these were enacted up front in OBRA 1990. The remainder have been and will continue to be achieved in the annual appropriations process. The BEA also set in place the machinery for preserving the savings achieved in OBRA. By all accounts, the BEA enforcement mechanisms have been highly successful in achieving this objective. I believe similar enforcement mechanisms will likely need to be continued in the next budget process reform.

Question 2. During consideration of deficit reduction packages, increases in budget items such as user fees and Medicare premiums are most often cited as spending "reductions." Do you believe it is accurate to label such increases as reductions on the spending side of the ledger?

Answer. From a budget accounting standpoint, it is appropriate to record collections like these as offsets or reductions to outlays. The budget distinguishes between collections that arise from voluntary business-like transactions between the government and the public and collections where payment is compelled by the government as the sovereign. Business-like collections are recorded on the expenditure side of the ledger as offsets against the expenditures made by the government to produce the goods or services sold to the public. In this way, the budget shows only the net subsidy paid by the government to the public. In contrast, governmental receipts are shown on the income side of the ledger. As a result, total receipts represent the amount raised via the government's power to compel payment that is available to finance governmental activities.

This subtle difference should not be ignored in deficit reduction packages. In most cases, it is appropriate for the government to charge a fee that is high enough to cover the costs of producing the goods or providing the services. If the fees that the government must charge to cover costs become excessive, the public is free to purchase from other suppliers. If the public continues to buy from the government after the fee increase, then the subsidy provided by the government is lower. Therefore it is reasonable for deficit reduction packages to show such fee increases as reductions in outlays.

In most cases, classification of receipts as either governmental or business-like is straightforward. In a few instances there are honest disagreements about whether collections are derived from the sovereign power of the government or from business-like activities. For example, some would argue that some medical premiums should be shown as a governmental receipt, not a business-like collection.

This does not mean that the effects of fee increases on consumers should be ignored. From the standpoint of the individual who is paying the government, the classification of their payment on the government's books probably makes no difference. When taxes or fees are increased, the public pays more.

Question 3. The PAYGO process under the Budget Enforcement Act has been criticized as ineffective in controlling spending because it does not apply to mandatory spending already in law. What are your views on the PAYGO process and whether it should be strengthened by imposing an annual cap on mandatory spending growth or by some other means?

Answer. The PAYGO process is designed to retain the savings achieved in OBRA90. It requires that direct spending and receipts legislation be, in total, deficit neutral. Several proposals have been made to add a mandatory "cap" enforcement procedure to address the growth in current law mandatory spending. Most of the proposals would limit growth beyond that which can be explained by changes in general prices levels and beneficiaries. As I noted in my answer to a previous question, a cap sounds simple, but is in fact very problematical.

Other proposals would set specific levels of reductions in entitlement spending. These levels could be adjusted by agreement in the Budget Resolution. This has the advantage of allowing for changing priorities in the mix of mandatory and discretionary programs as well as revenues. It has the disadvantage of possibly not reaching deficit goals if economic and technical reestimates further increase baseline estimates.

Question 4. Budget summits between the president and congressional leaders have been an important feature of Federal budgeting in recent years. What are your views on the advantages and disadvantages of this approach?

Answer. Good coordination between Congress and the administration is essential. A multi-year plan for budget reduction must have the strong support of both the President and the Hill leadership. summits are certainly less than ideal ways to achieve such understanding. Now that divided government is over, ways should be sought to work out compromises in less time-consuming and contentious ways.

Question 5. Several times in *Reviving the American Dream* you criticize the increasing complexity of the Federal budget process. You write, "This complexity has exacerbated hostility toward government, since people who are mystified naturally assume something illicit is going on at their expense" (page 182). One of your underlying premises is that in order for government to improve, the public must be able to understand the decisions which are being made, and must become more involved in those decisions. What actions would you recommend to improve the process?

Answer. In previous writings, I have suggested several approaches to simplification. One approach is to make decisions less often, perhaps by moving to a biennial budget. Another approach is to have fewer decision points, so that the same decisions do not need to be revisited in authorizing, appropriating and budget committees. Another approach is to simplify the budget itself—to have fewer accounts and to reduce the number of small programs.

Question 6. There is a widespread perception that in the past OMB manipulated revenue and spending projections for political purposes. How do you view the so-called "rosy scenarios" of years' past? What do you believe should be done to restore credibility to the system?

Answer. Administration economic assumptions of the past decade have been about as accurate as the forecasts of CBO and the Blue Chip private consensus for the very near-term, looking just at the current calendar year (January or February projections). However, they tended to have an optimistic bias over longer time horizons. As shown in the attached table:

- The Administration overestimated year-ahead GDP growth by an average of 1.3 percentage points for forecasts made between 1981 and 1990, compared to 0.7 point for CBO.
- The Administration also had larger underestimates of real interest rates in the year-ahead forecast, but was more accurate in predicting inflation.
- These biases in the year-ahead forecasts work to understate the deficit in the forthcoming budget year.

Similarly, CBO's most recent mid-year report noted that, "although both CBO and the Administration's forecast errors have tended to err toward optimism, the Administration's forecast errors have typically been larger than CBO." For four-year forecast horizons starting in 1978, CBO overestimated average annual growth by 0.6 percentage points, while the Administration's overestimate was 1.2 points.

It is not clear how many of these errors were due to manipulation and how many were due to genuine forecast uncertainty. Also, the Administration has always claimed that its projections were contingent upon the enactment of policy changes which often did not occur.

(See attached table—IV-6.)

Economic forecasting is extremely difficult and no forecast should be taken too seriously. It is my hope that the Clinton administration will resist the temptation to minimize future budget problems by embracing unrealistically optimistic forecasts.

Question 7. Omnibus budgetary legislation has been a recurring feature for the past decade or so. Past presidents have applauded the use of omnibus budgetary legislation in the context of reconciliation but condemned its use in the case of continuing resolutions. What are the relative advantages and disadvantages to the President and Congress in the use of omnibus legislation? Do you think that reconciliation should be used in 1993?

Answer. An omnibus reconciliation bill has several advantages. It allows for numerous painful deficit reductions to be enacted together, providing the political cover of favoring deficit reduction although perhaps not supporting everything in the bill. procedurally, a reconciliation bill comes to the Senate under special rules, which makes passage considerably easier. There are limitations on the hours of debate as well as on the type of amendments that can be offered. Amendments must be germane and can not reduce the savings in the bill below the level required in the budget resolution.

The disadvantage of a reconciliation bill is that it becomes a "must sign" piece of legislation. Bills can be quite long and items that are not germane to deficit reduction are often added. As long as deficits are so large, however, I believe reconciliation will remain a useful tool for getting them down.

Question 8. How would you bring to an end or minimize the disruption in Federal Government operations, including agency shutdowns and employee furloughs, caused by funding gaps? Do you think there should be a permanent continuing resolution?

Answer. One approach which could be studied is the use of an "automatic" continuing resolution has been proposed by some to avoid the pressures and problems associated with last minute enactment of continuing resolutions. Such a mechanism would provide that whenever a regular appropriations bill has not been enacted by the beginning of a fiscal year, the affected agencies and programs would continue their functions according to a formula.

Like enacted continuing resolutions, the formula would need to specify a level of funding and a period time. The level might be last year's enacted, or last year's level minus a fixed percentage; the lowest of House-, Senate-, conference-enacted, or the current rate; or the lower of the current rate or the President's budget level. Similarly, the duration could be to a date certain, until enactment of a regular appropriations bill, or the entire fiscal year.

An automatic continuing resolution could eliminate the legislative crisis that may occur each fall when regular appropriations bills are not enacted. On the other hand, an automatic mechanism could promote inaction by removing a very real incentive for enacting regular appropriations bills. It also increases the burden on those seeking to change the prior year's appropriations levels and priorities: failure to act means that some form of the prior year appropriation will remain in effect.

Moreover, an automatic continuing resolution raises practical problems of its own. As indicated above, the length of time such a resolution would stay in effect and its exact provisions could be a major source of controversy. And unless the resolution were permanent, it would only postpone, not solve, the problem of funding the government when existing authority is exhausted. In short, such a resolution could create as many problems as it solves.

Given the relatively small scope of the funding gap problem, adoption of an automatic continuing resolution may be unwarranted. Greater cooperation between the executive and legislative branches and within the Congress can solve much if not all of the problem. For example, there have been no "shut-down" crises in the last two years, in part because the

Budget Enforcement Act of 1990 established agreed-upon funding levels for discretionary programs.

Question 9. What are your views on instituting a two-year budget cycle? What are your views on the wisdom of having a two-year budget resolutions, appropriations, and authorizations?

Answer. I have long favored a biennial budget. I believe budget-making has come to consume too much time and energy, both in the Executive Branch and in the Congress. Making budget decisions every other year would not make the decisions any easier, but it would provide more continuity for agencies and state/local governments, reduce agency time spent preparing and defending budgets, and free Congressional time for oversight and other activities.

I have detected little enthusiasm among appropriators for these ideas!

Question 10. President-elect Clinton has stressed the need for increased investment to spur economic growth. Please define what you mean by "investment."

Answer. There is no single definition of investment that will satisfy everyone, and if this category of spending takes on new importance, the definition could become quite controversial. There are at least two sources of controversy: one involving the concept itself, and the second involving the application of the concept to a very large and complicated array of tax and spending policies.

Investment generally means spending that yields long-term benefits. This usually includes spending for certain types of physical capital, but can also include spending for research, development, education, and training, which are less tangible but also provide long-term benefits. More expansive definitions can include certain health programs or social services.

A definition that has been used in the budget for many years includes three major types of investment spending: (1) physical capital; (2) the conduct of research and development; and (3) the conduct of education and training. The budget definition includes investment for national defense and international affairs as well as domestic spending, but makes no provision for tax activities.

Physical capital includes outlays for construction and rehabilitation, the purchase of major equipment, and the purchase of land or buildings. It can include both that which generates economic growth (e.g., highways) and that which improves government services (e.g., IRS computers). Both direct Federal spending and spending financed by grants to state and local governments are considered investment spending.

The conduct of research and development includes basic research, applied research, and development. Spending for research facilities (i.e., construction, rehabilitation, and the purchase of major equipment) is included in physical capital.

The conduct of education and training covers all programs whose primary purpose is education, training, or vocational education. Not included is training for civilian or military employees. Outlays for physical capital or research and development related to education and training are included in the categories for physical capital or for the conduct of research and development.

Question 11. What are the advantages and disadvantages of presenting a separate capital budget for the Federal government? Would such a budget facilitate decisions to promote capital investment? How would you propose to treat expenditures for development of human capital?

Answer. The unified budget could be split in two: a capital budget for investment, and an operating budget for all other outlays. The focus of attention for the deficit and other budget totals would shift to the operating budget. Under most proposals, the operating budget would include depreciation as an expense. Under some proposals, net investment (investment outlays minus depreciation) would be financed by borrowing.

A capital budget might encourage investment. It would also help people realize that the government is bequeathing assets as well as debt to future generations.

However, a capital budget could encourage wasteful as well as productive investment. By recording only depreciation upfront in the operating budget—5 percent of the asset cost if it was depreciated over 20 years on a straight-line basis—the cost of an investment would appear very cheap.

The total Federal deficit, not the operating deficit, determines Federal borrowing. Private investment, which is also needed for economic growth, is crowded out as much by borrowing to finance government investment as it is by borrowing to finance other government spending. The total Federal budget affects short-term aggregate demand.

A capital budget focused on economic growth would need to include investment in human capital and R&D, because they yield economic returns as high or higher than investment in physical capital. Intangible capital would pose special problems in defining investment and estimating depreciation.

An alternative to a capital budget is to continue the unified budget, but to distinguish some or all capital spending from other outlays. The principal budget display could be divided between spending for the future and for the present and past. A separate investment target could be set. And if the BEA caps were retained in some form, a separate investment cap or floor could be based on this target.

This system would provide a method and an incentive to decide how many Federal resources should be devoted to aggregate capital formation for economic growth. By recording all costs upfront, maintaining the unified budget totals, and not estimating depreciation, it would avoid the major problems of a capital budget.

Question 12. The General Accounting Office has recommended restructuring the Federal Budget not only to separate capital and operating components, but also to include for each side subtotals for general, trust and enterprise activities. What is your view of this proposal?

Answer. GAO's principal budget presentation would be a tripartite division between general, trust, and enterprise funds (overlaid on a tripartite division between operations, Federal capital, and developmental capital).

GAO says that the growing trust fund surplus masks the size of the deficit in the rest of the budget. Trust fund receipts may be misused if trust fund spending is restricted—while receipts accumulate—in order to offset the deficit in the rest of the budget. GAO says that enterprise funds need more flexibility than other programs because they are business-like. GAO's argument depends partly on the desirability of exempting trust funds and enterprise funds from general budget discipline, such as BEA.

The weight of GAO's arguments depends partly on the nature of trust funds and public enterprise funds.

—A trust fund finances a Federal program with earmarked receipts and has been designated a "trust fund" by law. It is not a "trust" in the private sector sense, where the beneficiary owns the trust's assets and the trustee manages them as a fiduciary. The government owns the assets of most trust funds, and it can change future receipts or outlays by changing the law.

—Many public enterprise funds are not self-supporting, such as the liquidating accounts for credit programs, savings and loan deposit insurance, flood and crop insurance, and CCC.

Since the President's Commission on Budget Concepts in 1967, the focus has been on the unified budget. For many years, however, the Budget has had a separate section that divides the totals between trust funds and Federal funds. A separate section on public enterprise funds is no longer published, but detailed information is available.

A split budget would make multiple deficits prominent. This could be confusing. Moreover, attention could be focused on whichever deficit or outlay total made the case for a particular policy position. A split budget would also make it harder for decision makers and the public to see programs as a whole and in relationship to the entire budget. This would hinder the budget's role as a framework for allocating all the government's resources among different programs.

Question 13. Another criticism of current budget procedures is that diverse elements of the budget affecting the same types of economic activities are not coordinated. A case in point is that tax expenditures and direct spending programs affecting the same types of activities—business investment or housing, for example—are not considered in conjunction with each other. Do you favor any reforms to promote more coordinated budget decision making?

Answer. In principle, it would be helpful to focus the attention of both the administration and Congress on alternative ways of achieving the same

objective. Health financing and housing subsidies, for example, can often be pursued on either the tax or spending side. Given the committee structure, however, it is usually difficult to achieve consideration of these alternative mechanisms simultaneously.

Question 14. Recent changes in the budget formulation process and in financial accounting have begun to recognize, through the statement of unfunded liabilities, the need to address the potential cost of long-term problems. How do you view the importance of this process and would you recommend any changes?

Answer. The budget is a system for controlling the full cost of commitments when they are made. Budget authority is required for all cash outlays expected to result from any commitment. This approach efficiently allocates resources for transfers, grants, and purchases, including investments.

Before 1992, the budget did not show the full cost of credit commitments when they were made. It still does not do so for insurance. For these programs, a single commitment, e.g., to guarantee a loan, binds the government to make future payments, e.g., default claims. A better method of budgeting for the cost of such commitments is to require BA for the present value of the net cash flows, and to show outlays for this cost when the loan is disbursed. This change was made for credit programs by the Federal Credit Reform Act of 1990.

In reports required by that Act, CBO and OMB both said that budgeting for deposit insurance should be similar to that for credit. The 1993 Budget proposed to make this change. Since then, a more precise concept of insurance commitments extended has been defined, and cost measures for deposit insurance and pension guarantees have been improved. These revisions answered many of the objections to this proposal. CBO and GAO officials have said that they believe this will be the next change in budget concepts.

Beyond present commitments, the potential cost of on-going programs has increasingly been reported in charts and text tables in the Budget by an array of very long-run current services projections. A text table shows the actuarial cost of retiree annuities and health benefits for Federal employees based on past service, and the expected future cost for present employees. For social security and Medicare, closed system and open system costs are shown, as well as effects of varied assumptions.

Federal accounting standards that address the above concerns are being developed by the Federal Accounting standards Advisory Board (FASAB). OMB is represented on the FASAB. Four financial reporting objectives have been proposed. Under one of them, the financial condition of the government would be assessed, including whether future budgetary resources are likely to be sufficient to sustain public services and meet obligations as they come due.

Question 15. What are your views on maintaining the unified budget? What is your position on the treatment of off-budget programs and trust funds?

Answer. The unified budget was first adopted for the Federal budget in FY 1969, on the basis of recommendations from the President's Commission on Budget Concepts. The primary purpose of the Unified Budget is to provide a single, comprehensive measure of the government's economic and financial plans. There are at least five reasons for supporting the unified budget and opposing the designation of some activities as off-budget. Moving Federal activities out of the budget:

1. Misstates total taxes and total spending;
2. Undercuts the role of allocating all Federal resources that is supposed to be performed by the budget process;
3. Increases the demands of advocates of other programs to move their favorite programs off-budget;
4. Suggests that any off-budget programs should not be part of the solution to the deficit crisis; and
5. Lessens the incentive for supporters of off-budget programs to be part of a deficit reduction compromise.

Question 16. What do you consider the proper budgetary treatment of the social security Trust Funds?

Answer. As discussed under 15 above, there are strong arguments supporting the concept of a unified budget in which all Federal receipts and outlays are included in a single budget.

Social security is so large, however, that calling it "off-budget" has few risks. It cannot be forgotten or ignored.

Question 17. Are there any changes in the Federal budget process that you believe should be pursued that have not been mentioned in these questions?

Answer. I think the major issues have been discussed. Three others come to mind that are relatively technical but nonetheless important.

We need to develop rules for scoring non-cash transactions in the budget. In recent years there has been a proliferation of legislation authorizing the use of various forms of non-cash transactions, such as barter or enhanced-use leases, to support agency activities. I suspect that in many cases, such transactions are authorized specifically to bypass the discipline of the budget process. In any event, this means of financing programs should be accounted for in the budget.

Similarly, the rules should require the full cost of procurement programs and construction projects to be scored in the budget process. Under the current rules, funding can be provided for discrete components of such activities, or for one year's contractual liabilities, so that the real cost of such activities is not counted upfront in the budget process.

We should redefine the debt subject to statutory limit to include only debt held by the public. Currently the limit applies to debt held both by the public and by government accounts, mainly trust funds. Debt held by the public is the debt aggregate that policy makers wish to limit and that affects the economy. Also, debt held by the public is more closely related to the deficit. There is no reason to constrain debt held by government accounts, so it makes no sense to include such debt in the definition of debt subject to limit.

V. OMB MANAGEMENT ROLE

Question 1. The Chief Financial Officers Act of 1990 (P.L. 101-576) consolidated OMB management functions under a new Deputy Director for management in an effort to improve OMB'S management role. During the initial implementation of the Act, then-OMB Director Darman spoke of the need to elevate the management function by better integrating OMB management and budget operations. What are your views on OMB'S role in addressing government management problems, your role as Deputy Director, and the relationship between the management and budget sides of OMB?

Answer. I agree with the need to integrate budget and management operations. While management and budget imperatives seem sometimes to be in conflict, they are mutually dependent. Budgeting must be about more than cost-cutting in the short term; it must be about building capacity, such as good people and financial systems, for the long term. On the other hand, management must be more than mindless compliance with procedures; it must be about accountability for results and giving managers discretion to do the jobs they are paid to do.

Establishing effective relationships between budget and management staff depends first on having quality staff committed to making government work. Beyond that, we will need to have a close working relationship among the management and budget officials in OMB.

I do believe that management oversight can, and indeed must, be embedded in the budget examination process. For example, if we are to be serious about making government more accountable, we need to work with the agencies and their clients to develop meaningful performance measures. OMB's program expertise is in its budget examining divisions. In turn, program performance measurement will only be taken seriously if OMB budget examiners, as well as authorizing and appropriations committees, demand and use performance data in their reviews of Federal programs and budgets.

Question 2. Over the last several years, both OMB and GAO have prepared lists of management "high risk" areas. These efforts have led to SWAT teams and other approaches for correcting management failures. What is your view of this process, OMB'S role (particularly, the budget side), and possible improvements?

Answer. OMB's high risk list was established in 1989, against the backdrop of scandals at the Department of Housing and Urban development. The high risk program supplemented existing internal control programs, and injected some critical elements: top-level agreement between OMB and the agencies on the problems and the ways to fix them; continuing OMB monitoring of agency progress; discrete consideration of high risk funding needs during the budget formulation and execution processes; and agency accountability for results (through publication of high risk tables in the President's budgets).

In August 1992, the General Accounting Office reported that the high risk program was providing a much needed emphasis by top level officials on strengthening the operations of Federal programs. I agree. I also believe that this program demonstrates that OMB can and should play a major role in correcting serious management problems in the Federal Government.

As exemplified in the high risk program and successful SWAT team efforts, OMB is most effective when it engages top agency management and galvanizes agency resources to address problems, then demands accountability for agency action. Absent these conditions, no expenditure of OMB resources can be expected to yield major, substantive change. Indeed, it may be time to consider whether and how it is possible to increase the substance of "accountability" by introducing into the high risk program specific methods of ensuring that promised reforms in fact occur. Such methods should leverage scarce OMB resources to assist in correcting agency management deficiencies.

Question 3. The CFO Act gives OMB the responsibility for overseeing the "systematic measurement of performance." As you may know, in the last Congress the Senate passed S. 20, the "Government Performance and Results Act," which would spell out OMB's performance measurement mission, including testing performance budgeting. What are your views of performance measurement and, in particular, performance budgeting?

Answer. My view conforms to these conclusions in the November 1991 House Budget Committee staff report on Management Reform:

- "Governmental management and problem solving require long-term planning, coherent management decisions and consistent follow-through"
- "We need to invest in after-the-fact systems that focus more on performance than process"
- and there is a "need for program monitoring and evaluation."

To these, I would add giving managers more responsibility and authority but holding them accountable for achieving results.

In my opinion, we should look at performance measurement in the context of a comprehensive system consisting of: (1) long-range planning to establish program goals; (2) an emphasis on program execution, which requires agency managers and officials to focus on and evaluate how they are doing; (3) setting of specific performance goals as targets to be achieved; (4) comparing actual performance against these targets; and (5) giving managers more flexibility and holding them accountable for results. I would note that the Committee's bill, S. 20, incorporates many of these elements.

Your Committee's report on S. 20 commended OMB "for its efforts to use the CFOs Act as a means to begin moving federal agencies toward systematic measurement and reporting of program results." I believe we should build on this start. OMB can play a central role in directing and overseeing any performance measurement system. Similarly, OMB can play a role in evaluating agency requests for more managerial flexibility through waivers of requirements and controls in exchange for improved performance and greater accountability.

As a survivor of several previous attempts to measure government performance, however, I am conscious of the paperwork burden that can be imposed. We should be selective and guard against mindless generation of measures that have little practical impact.

Question 4. In an effort to address improving government management and government performance, many commentators have spoken of the need for a broad reorganization. What are your views on the need for government reorganization and consolidation, the potential budgetary implications, and OMB's role in such an effort?

Answer. Organizational structure is one variable affecting government management and performance. structural obstacles that impede management, raise costs, and hamper the delivery of quality and service deserve attention. Some Federal institutions reflect the needs of earlier eras while others duplicate or compete with one another, lack accountability, are too unwieldy in size, or are overwhelmed by overly prescribed process and organizational requirements.

The energy and disruption of major Executive branch reorganization demands very close scrutiny of the proposed benefits. The Federal government can benefit from reorganization and consolidation only as long as reorganization extends beyond a reshuffling of boxes. It must break down barriers to rational policy-making and implementation both externally and internally: reorganization would have to result in significant improvement in client service. Further, reorganization needs to be accompanied by changes in managerial flexibility and accountability.

VI. FINANCIAL MANAGEMENT

Question 1. Please describe your views on the importance of financial management (including the reforms of the CFO Act), its relevance to the budget process and program performance, and what specific steps OMB should take to ensure that agency financial information is taken into consideration in the budget process?

Answer. It is very important. Few people outside the government know how bad the government's financial management is. Most agencies cannot and do not prepare audited financial statements, although one wouldn't buy stock in a company or put money into a bank that could not prepare audited financial statements. The financial information used to make multi-billion dollar decisions is often wrong and late. Agencies do not know how much assets they have or where the assets are.

The CFOs Act provides an opportunity to correct this long standing problem. The focus of authority on the government-wide chief financial officer and controller and the agency CFOs will enable the Congress and the President to hold specific people accountable for making the improvements. The emphasis on improving the accounting and financial management systems should increase the availability of timely, useful information. The required audited financial statements will provide not only a confirmation of the reliability of the information. They will be a vehicle for presenting information about the performance of the programs for which the statements have been prepared. They will represent a framework that demonstrates an agency has the personnel to prepare the statements, the information with which the statements can be prepared, the accounting standards that define the manner for presenting the information, and the audit capacity to evaluate and attest to the information.

Budget formulation and execution should be supported by timely and accurate information on budget, program, and financial results. Information that is not timely, accurate, and internally consistent is of little value to budget formulation. Existing agency systems for collecting this information and making it available for decision-making and for budget control need improvement.

A number of the financial reporting improvements fostered by the CFO ACT can be of benefit to the Federal budget process. First, changes in the form and content of the audited financial statements required by the Act will improve both the meaningfulness of the disclosures for accountability and the usefulness of the information for evaluation of the agency's activities. second, there will be more program performance information included in the statements.

Third, the coverage of the audit process can be expanded to encompass budget information. This will help to address the problems that exist with the reliability of the information. Fourth, an attempt will be made to accelerate the availability of the audited financial statements, from June 30th following the end of the fiscal year (the presently required date) to mid February, in order that the statements can be available for Congressional budget review and hearings.

Finally, OMB has been working with the Treasury to automate the collection of information under existing budget and other financial reporting requirements. In the past year, a project has been started to design a joint

OMB/Treasury collection mechanism and process to provide timely, accurate, and consistent information.

Question 2. Please describe your views on the role of OMB's Office of Federal Financial Management (OFFM), and its relationship to the budget side of OMB.

Answer. The role of OFFM is to develop policies and guidance materials for improving financial management, primarily as contemplated by the CFOs Act, but also in accordance with other statutes, e. g., Federal Managers Financial Integrity Act, Inspectors General Act, and monitor and assist with the implementation of that guidance. It has four branches, consistent with the major aspects of improving financial management.

The Federal Financial Systems Branch provides direction and leadership for the development of the modern financial management systems that are required to process and record financial information effectively and efficiently.

The Financial standards and Reporting Branch develops the policies and materials and provides the targeted technical assistance agencies need to prepare and obtain audits of financial statements.

The Credit and Cash Management Branch develops government-wide policies and standards for the management of the government's assets, specifically the management of credit, the collection of tax and non-tax debt, and the management of cash.

The Management Integrity Branch works to improve the management and integrity of the government by working with the Inspectors General and managing government-wide efforts relating to audit followup, management controls, and high risk programs. It is also responsible for strengthening financial management planning, organizations, and personnel.

OFFM works closely with the budget side to achieve these goals. Budget examiners look to OFFM to provide insight and guidance for reviewing and deciding upon budget allocations for management activities. OFFM obtains greater understanding of the agencies from the budget examiners, and works with them to obtain agency responsiveness to desired financial management improvements.

Question 3. Under OMB's financial management program, Department of Treasury and OMB financial data bases are to be integrated. What is your understanding of this effort, and what are your views on its contribution to financial management and budget formulation?

Answer. OMB's long-term objective is to establish integrated databases of all financial and performance measurement data necessary to meet the analytical and reporting needs of central agencies (OMB and the Department of the Treasury). Integrated central agency databases are critical to ensure adequacy, consistency, and timeliness of financial information for government-wide reporting and to support policy formulation. To be effective, budget formulation and execution must be supported by timely and accurate information on budget, program, and financial results. Information that is not timely, accurate, and internally consistent is of little value to budget formulation. These databases are also necessary to support the past-year budget data included in the President's Budget Submission to Congress and the Consolidated Financial Statement prepared by the Department of the Treasury.

Progress is being made to improve current central agency systems. In February 1991, agency submissions of Standard Form 133, Budget Execution, were automated by use of a Treasury database (ADEPT System) accessible to OMB. Currently, additional efforts are underway to add credit reform data to Treasury's database and, as part of the MIDAS Project, to assess broader central agency reporting requirements and revise reporting processes to eliminate redundancies and improve the consistency of data, wherever possible. Also being developed is a process whereby agency accounting data necessary for preparation of the Financial Statements required by OMB pursuant to the Chief Financial Officer's Act will be transmitted electronically to Treasury. This process is expected to be in place for FY 94 year and reports.

Question 4. What is your impression of the condition of internal controls across government today, and what is the affect of inadequate internal controls on agency budgets?

Answer. Obviously, the stories about Federal waste, fraud, and abuse continue. Nonetheless, there is a general view that the condition of internal controls across government has improved somewhat over the past years—due in large part to greater scrutiny by the Congress and the media, as well as such factors as the Chief Financial Officers Act, the Inspectors General, and the high risk lists published by the General Accounting Office and OMB.

As a general matter, however, the country still does not have reasonable assurance that its government is operating effectively, efficiently, and with integrity. I submit that this situation stems principally from our continuing failure to instill incentives and accountability for management integrity within the Federal system. No system of outside checks and balances, no matter how elaborate, can compensate for holding individual Federal managers accountable for preventing waste, fraud, and mismanagement.

FMFIA was intended to address this fundamental management need. However, it has fallen short of the mark in its implementation. FMFIA implementing guidance has tended to become the purview of specialized internal control staffs. The result has frequently been a paperwork process that has little to do with substantive improvements in management controls.

As we empower agency managers, we need to make sure they understand that management integrity is an essential and integral part of the way they are expected to do business. Agency managers need to understand that they should invest in preventing control weaknesses rather than wait to they blow up and require fixing. They must recognize that they cannot delegate the responsibility for ensuring trouble free management to the Inspector General.

I believe that OMB's top management should play a major role in communicating these messages, and in assuring that OMB's implementing guidance makes sense and is followed.

Question 5. President-elect Clinton has proposed new policy initiatives for workforce training that involve private sector employers as well as public and private nonprofit agencies. What steps might OMB take to ensure the fiscal integrity of Federal programs that are administered through such hybrid arrangements?

Answer. The appropriate steps would depend on the nature of the hybrid arrangements. In similar areas in the past, OMB has ensured that organizations which expend Federal monies are subject to a minimum set of requirements for business-like management of Federal funds and are audited by an independent entity.

For example, the grants management common rule for State and local governments defers to State practice in financial management but establishes a legally binding minimum set of business-like requirements for local governmental grantees. The requirements address such matters as payment procedures, procurement and property systems, and grant close out procedures. Similarly, OMB Circular A-110 defines a minimum set of requirements for grantees that are universities or non-profit organizations.

The Single Audit Act of 1984 requires State and local governments to obtain annual organization-wide audits of Federal grant monies. The audits must be conducted in accordance with government auditing standards. OMB Circular A-133 requires the same for other types of grantees. These audits determine whether the recipient has maintained adequate controls over Federal funds and whether the recipient has complied with program requirements. Samples of these audits are desk reviewed by the Inspectors General to assure they are conducted in accordance with government auditing standards.

Question 6. President-elect Clinton has also proposed new community service programs that may involve education debt forgiveness. What steps might OMB take to ensure that possible fiscal consequences of such programs are recognized and that financial risks to the government are minimized?

Answer. The President elect said shortly after he was elected, "In the national service context . . . there are a lot of factual questions that have to be asked . . . how much money should people be able to borrow a year . . . how are you going to keep the colleges and the universities of this country from using it as an excuse to explode tuition even more . . . should we add to . . . or modify [campaign recommendations]."

Answering these questions and many others is a part of the process of designing an initiative to meet policy objectives laid out by the President-

elect. OMB's traditional role in the design process for any new Administration initiative is to ensure that:

- The costs and risks of alternative means of meeting policy objectives are identified and clearly laid out in internal decision-making processes
- Once decisions are made, budget and legislative proposals recognize and address the fiscal consequences and any financial risks inherent in an initiative.

Decisions on this issue have not yet been made so it is not possible to answer the question with any specificity. Federal and State experience with loan forgiveness and community service programs, as well as credit reform principles, can be drawn upon in the Administration's decision-making processes.

VII. INTERGOVERNMENTAL RELATIONS

Question 1. In your book, *Reviving the American Dream*, you call for restructuring the division of responsibilities between Federal and State and local governments.

a. What are your current views on the prospects for this effort in the next four years?

b. What are your specific criteria for assigning a governmental activity to the Federal government or to State and local government?

Answer a. I still believe that restructuring is desirable, but do not see immediate prospects for a major review of this issue.

Answer b. Many criteria are possible. I believe that the federal government should handle matters that

- are inherently national (such as national security)
- spill across state boundaries in a major way (such as river pollution or air traffic control)
- require a uniform national system (such as social security).

States, on the other hand, should take the lead in functions that work best when adapted to local conditions, that benefit from experimentation and clear accountability to officials on the scene. (In the book, I suggested that these included elementary and secondary education, training, social services and most infrastructure.)

Question 2. In your book, you stress the importance of improving our nation's productivity, which you describe as involving workforce skills, transportation, and infrastructure. You also state that the States should be responsible for this productivity agenda. What are your current views on the steps the Federal government should take to improve productivity, as you describe it?

Answer. Improving productivity requires major new efforts, either at the state or federal level, or both, to improve the skills of the present and future workforce. I believe the federal government can assist states in revitalizing education and making training programs more relevant and effective. Modernizing infrastructure is also important. The Clinton campaign emphasized these themes, but specific proposals are still being worked out.

Question 3. In a commentary in the April 1990, issue of *Governing* magazine, you recommended the development of a "common tax" such as a value-added tax or an energy consumption tax to be shared by all the states. In the article you wrote:

"If the United States is to have a world-class economy for the 21st century, state governments have to take the lead. Infrastructure must be modernized, school systems drastically improved and public services, from child development to adult retraining, made dramatically more effective.

The Federal government is both broke and unsuited for the role of providing these services, which require diverse responses tailored to local conditions, active citizen participation and visible elected officials who can be held accountable for results. Washington is too far from the scene to handle these challenges flexibly and effectively."

What are your current views on this statement and the need for a new "state-level tax?"

Answer. I believe, as I stated in the book, that state revenue systems would be strengthened by the adoption of one or more common shared taxes (imposed at a common rate on the same base and shared on a formula

basis). Common shared taxes would shift the competition among states from tax reduction to attract business to service improvement. The common tax could be a new tax (such as a value added tax) or an old one (such as retail sales.)

Question 4. From your experience as chair of the Commission on Budget and Financial Priorities of the District of Columbia (commonly known as the Rivlin Commission):

a. What is the appropriate role for the Federal government in the fiscal affairs of the District of Columbia?

b. What are your views on the efforts by the government of the District of Columbia to implement the recommendations of the Commission, particularly the need for staff reductions and financial management reform?

Answer a. I personally favor statehood for the District of Columbia.

Answer b. The District of Columbia implemented some of the recommendations of our Commission. It still needs to take major steps to reduce spending and increase revenues in order to eliminate its still serious deficit.

VIII. SPECIAL INITIATIVES AND CONCERNS

Question 1. In the past there has been considerable controversy about OMB's legislative clearance function. What are your views on this subject and what will your responsibilities be for this area as Deputy Director?

Answer. There have rarely been any significant controversies about OMB's legislative clearance function, which is designed to assist the President in carrying out his legislative responsibilities. The function grew out of the control over the budget given to the President by the Budget and Accounting Act of 1921. President Roosevelt's Reorganization Plan No. 1 of 1939, which transferred the Bureau of the Budget to the Executive Office of the President, formally assigned the function to the Bureau (which later became OMB).

OMB Circular No. A-19 sets forth basic guidelines and procedures governing the clearance process, which have been substantially the same for more than 50 years. The clearance function serves the following purposes:

- Permits the coordinated development, review, and approval of agency legislative proposals needed to carry out the President's legislative program.
- Helps the agencies develop draft bills that are consistent with and that carry out the President's policy objectives.
- Identifies for Congress those bills that are part of the President's program and the relationship of other bills to that program.
- Assures that Congress receives coordinated and informative agency views on legislation which it has under consideration.
- Assures that bills and position statements submitted to Congress by one agency properly take into account the interests and concerns of all affected agencies.
- Provides a means whereby divergent agency views can be reconciled.

During the 102nd Congress, 742 agency legislative proposals and over 4,500 proposed agency communications to Congress (generally testimony and reports) were coordinated by OMB.

The new administration will assess the clearance process to see if it can be made to operate more smoothly.

Question 2. The government faces potentially enormous future liability from hazardous waste contamination at Federal sites. In June of last year, the Congressional Budget Office (CBO) reported that the government knows very little about the true cost of this cleanup. What are your views on better use of OMB's budget planning process, particularly through OMB Circular A-106, to more accurately plan for Federal facility environmental cleanup?

Answer. The cleanup of hazardous waste contamination at Federal facilities is an enormously complex and expensive undertaking that may take 20-30 years or more to complete. Developing reliable estimates of future costs for hazardous waste cleanup is complicated by uncertainty about the degree of contamination at these sites and the cleanup standards that will have to be met. Also, the technologies available to accomplish the cleanup

and the cleanup schedule will significantly affect project costs. Currently, there are no reliable estimates for all Federal agencies for cleanup.

The A-106 planning process, which since 1974 has required agencies to report to OMB annually through the Environmental Protection Agency (EPA) their plans to ensure compliance with environmental requirements, is focused primarily on resource estimates for the budget year rather than on estimates of total future costs. It is supplemented by other agency-specific planning mechanisms, such as the Department of Energy's (DOE) Five-Year Plan for Environmental Restoration and Waste Management that provides an annual update of DOE cleanup status and activities for the next five years.

While the focus of the A-106 process is to ensure that adequate funding is provided in the President's Budget for environmental compliance, it could be a more useful planning and budgeting tool with respect to out-year budget estimates. To this end, EPA and the agencies have taken steps over the past few years to improve the quality and completeness of project information reported in A-106 reports. Also, last May, EPA and OMB reconvened the Federal Interagency A-106 Advisory Committee to provide a forum for agencies to discuss further improvements to the A-106 process. This forum has held meetings, but has not yet produced specific improvements.

IX. RELATIONS WITH CONGRESS

Question 1. Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted committee of the Congress if you are confirmed?

Answer. Yes.

Chairman GLENN. With that, we'll have any other opening statements before we get on with the introduction.

Senator Roth.

OPENING STATEMENT OF SENATOR ROTH

Senator ROTH. Dr. Rivlin, it's a pleasure to welcome you here today. I believe you bring a wealth of experience and background, and understanding, both with respect to the budget as well as to the kinds of difficult choices we must make.

Frankly, one of the assets I think you have for this job is that you are innovative, you have a lot of new ideas—I don't always agree with them—but I think it is critically important that in these days of disenchantment with government that we have public servants who are willing to risk brave and innovative ideas.

Your recent book, *Reviving the American Dream*, of course, presents three different scenarios for the future of our Nation. You point out that the continuation of the eighties could mean a continuation of the status quo of large budget deficits; back to the sixties, which included a return to very activist Federal Government; or dividing the job, which suggests that the Federal Government return to the States the central authority for many programs currently performed at the Federal level. I shall be very much interested as to where you think we are headed.

One of the strongest arguments, in my opinion, to clarify the role of the Federal Government versus State and local government is that it fixes responsibility. If all levels of government are responsible for solving a particular problem, then no level of government is ultimately accountable, and the problem remains. The public does not really know who to hold accountable. And to me, this raises several questions.

Doesn't the inclination for the Federal Government to solve every social problem result in a never-ending drain on our Federal Treasury?

Don't we need to better define the limits on the Federal Government's responsibilities? And whether or not we are able to better define the limits of Federal responsibility, we need another step to strengthen the accountability of the Federal Government. I think we must do a much better job in focusing on the performance of Federal programs. To do that, we have to begin defining what each program is supposed to accomplish by requiring agencies to state specific, measurable performance goals. This is key to improving the management side, the often-overlooked "M" in OMB.

But it is also key, I believe, to improving the budget process because it allows us to develop a performance-based budget. This is the incorporation of program management goals into a program's budget, something that would tell us and the American people a lot more about what the money is supposed to buy. Directly linking program resources with program performance is a common sense reform long overdue in the Federal Government.

As future Deputy Director of OMB, you well understand OMB's central role in making the executive branch work rationally, effectively, and efficiently through its review of regulations.

The problem is under the authority of mere Executive orders, regulations authorized by statute are reviewed and often refashioned. Special interests who believe they can control their relevant agencies, but who dread OMB, do not want regulatory review statutorily authorized. I hope you will join me in supporting legislation which I have introduced to give OMB such authority.

Now, turning to the budget, during the campaign, the American people were presented with "Putting People First," President-elect Clinton's plan for the economy and budget. And as we consider our economic future, we must examine whether the current recovery can afford \$150 billion in new taxes. Can our Nation afford \$220 billion in new spending at a time when we have these tremendous deficits as far as the eye can see?

On January 21, the new President will face his first true test on deficit reduction. A decision on whether to adjust the maximum deficit amounts for 1994 and 1995 provides the President-elect with his first opportunity to demonstrate his commitment to deficit reduction. He will have to decide between higher targets and lower targets—that is, between higher deficits and lower deficits.

On January 21, the American people and the financial markets will see how serious this new administration will be about the deficit.

I have a little more, but I would ask that my full statement by included in the record. And again, it is a pleasure to welcome you here, Dr. Rivlin.

Dr. RIVLIN. Thank you.

Chairman GLENN. Without objection, so ordered.

PREPARED STATEMENT OF SENATOR ROTH

I would like to congratulate Alice Rivlin on her designation by President-elect Clinton to be the new Deputy Director of OMB. As the first Director of the Congressional Budget Office, you will bring to OMB a wealth of knowledge about the

budget, and about the kinds of difficult choices we will have to make if we are to reduce, and then eliminate the deficit.

Your recent book, *Reviving the American Dream*, presents three different scenarios for the future of our Nation—"The Eighties Continued," which means a continuation of the status quo and large budget deficits, "Back to the Sixties," which includes a return to a very activist Federal Government; or "Dividing the Job," which suggests that the Federal Government return to the States the central authority for many programs currently performed at the Federal level. I am very interested as to where you think we are headed.

One of the strongest arguments for clarifying the role of the Federal Government versus State and local governments is that it fixes accountability for performance. If all levels of government are responsible for solving a particular problem, then no level of government is ultimately accountable when the problem remains. The public does not really know who to hold accountable. To me, this raises several questions: Doesn't the inclination for the Federal Government to solve every societal problem result in a never-ending drain on our Federal Treasury? Don't we need to better define the limits on the Federal Government's responsibilities?

Whether or not we are able to better define the limits of Federal responsibility, we need another step to strengthen the accountability of the Federal Government. We must do a much better job of focusing on the performance of Federal programs. And to do that, we have to begin defining what each program is supposed to accomplish, by requiring agencies to state specific, measurable performance goals.

This is key to improving the management side—the often overlooked "M" in OMB. But it is also key to improving the budget process—because it then allows us to develop a performance-based budget. This is the incorporation of program management goals into a program's budget—something that would tell us and the American people a lot more about what the money is supposed to buy. Directly linking program resources with program performance is a common sense reform, long over-due in the Federal Government.

As future Deputy Director of OMB, you well understand OMB's central role in making the executive branch work rationally, effectively, and efficiently through its review of regulations. The problem is, under the authority of mere executive orders, regulations authorized by statute are reviewed and often refashioned. Special interests, who believe they can control their relevant agency but who dread OMB, do not want regulatory review statutorily authorized. I hope you will join with me in supporting legislation, such as I have introduced before, to give OMB such authority.

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Last, I think we share the belief that increasing public and private savings is critical to improving the productivity of our Nation's workforce and the Nation's standard of living. This requires reducing the deficit and promoting incentives to increase private savings. I look forward to exploring these ideas with you this morning.

Chairman GLENN. Senator Cohen.

OPENING STATEMENT OF SENATOR COHEN

Senator COHEN. Thank you, Mr. Chairman.

I was initially going to recommend that we follow the precedent set by the Finance Committee yesterday in approving Dr. Rivlin's nomination before we questioned her, but seeing that Senator Levin is going to introduce her, I think we have to wait now until the full testimony is taken.

Chairman GLENN. You may want to question Senator Levin as well this morning. [Laughter.]

Senator COHEN. Mr. Chairman, there are two images that come to mind when discussing this new team that President-elect Clinton has recommended—an outstanding one, I believe, with Leon Panetta and Dr. Rivlin. I don't know, Dr. Rivlin, if you have ever travelled through Logan Airport in Boston, but if you do, you will find a unique contraption that has been set up in one of the major hallways. It is a Rube Goldberg contraption that resembles something like a "Coney Island of the mind." You've got a ball at one end of this contraption which is sent spinning down various slides, and it sets off another trap and another obstacle, and it finally winds its way through various circuitous and dangerous paths, and minutes later—it seems like hours later—it will finally come out miraculously at the end.

The difference between that contraption and the Federal Government is that there is no end within the Federal system. That's one image that comes to mind.

The second image is one that occurred to me this morning. I appeared on a morning news program, and I was trying to find a parking space and had some difficulty. I was forewarned by one of the employees at the network that if I didn't park quite correctly, I might incur the ire of a meter maid who might be in a nasty mood and have my car towed away. The warning was that it would cost at least \$100 to get the return of the car, but equally importantly that it would take probably the better part of a day and I would be sent to at least three different offices within the District's bureaucracy in order to get the car.

I think that really does summarize what the feeling is on the part of the American people in their attitude toward government in general, and specifically the Federal Government. It doesn't work anymore. It is too complicated. It is too inconsistent. It is a house that is in great disrepair.

The question becomes how are we going to fix it? How are we going to change it? Senator Cochran is here, and he made a very important statement the day before yesterday dealing with change. Already, the critics are at the throat of President-elect Clinton. They have pointed out a number of his pledges during the course of the campaign—middle class tax cut, reducing the deficit in half, ending special interest influence on government agencies, new ethical standards to eliminate conflict of interest, cutting the White House staff by 10 percent or more—and they are saying he is backtracking on these even before he gets sworn in next week.

I want you to know and be reassured that the Republicans in the Senate and I would hope in the House, many of us at least, stand ready, willing, and most eager to help Bill Clinton and his administration make government work. That's what Senator Cochran was talking about the other day. We stand ready to help you make government work.

But as Senator Roth has just pointed out and Senator Glenn before him, the two key elements involved in OMB are management and accountability, and we don't have very much of that. Senator Levin, I think, would also attest that we don't have much in the way of accountability or much in the way of management. Dr. Rivlin, in your book you have set forth a proposal to reallocate the responsibilities at the Federal, State and local levels. And al-

ready, if Dave Broder's column has some significance, and I believe it does, there seems to be a backing away from undertaking that massive new task.

I want you also to know that while the Republicans are ready, willing and able to help the new administration, we also are preparing to take back the Senate in 2 years and the White House in 4 years, so that the time for you and the Clinton administration is very limited. I sincerely hope that President-elect Clinton will not back away from what I believe to be one of the most important tasks that he faces, and that is restructuring this government to make it work. I must tell you, we are up here being critical of this vast bureaucracy, but each of us is prepared to add another new department, be it trade or education or environment or veterans; we are just as eager to start adding to that bureaucracy. I think President-elect Clinton has the unique opportunity in the next 2 years to come forth with a bold new plan to restructure the government, to slim it down, to make it more accountable, to make it more manageable, and to make it more effective. We are ready and eager to help you in that task.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you. We'll follow an early bird rule on the order in which we go, regardless of party across the aisle, and Senator Dorgan is next.

Senator Dorgan.

OPENING STATEMENT OF SENATOR DORGAN

Senator DORGAN. Mr. Chairman, thank you very much.

Dr. Rivlin, welcome. It repeats what I said about Congressman Panetta, but I have enormous admiration for Dr. Rivlin and her work. I think she also is an excellent choice to serve in what will be a very difficult role in the coming years.

Following up on the comments of my colleague from Maine, I think there certainly is a need to restructure government and to rethink the role of government. But I also think that if we are to be successful in creating an economy that grows and competes and provides opportunity in the future, we have to decide to adopt policies—that is, public policies—that give us that opportunity.

We, for example, are the only country in the industrialized world that has no plan, and we have actually trumpeted the fact that we have no plan. We certainly wouldn't want to be picking winners and losers in our economy. Well, we won't compete against very tough, shrewd international economic competitors unless we decide to implement public policies in which we have a plan about what it is we want to accomplish and how we will accomplish it. What is the future manufacturing base of our country? What are the growth industries? How do we nurture and foster and protect and assist in those areas?

Even if we can't make choices about what is important, let's just accept the Japanese choice. They have certainly made their choices. Lester Thoreaux made the point to me one day that perhaps if we decide we can't choose, there are others who have made very successful choices that we could simply mimic.

But having said all of that, I think Mr. Cohen is right, we have to improve government, restructure government, and even as we do that, we've got to implement policies to give us an opportunity to succeed and grow in the future. We will not ever, in my judgment, succeed unless we tame this Federal deficit. We can have short-term growth and short-term spurts, but if we don't unload the cargo of this ship and lighten the ship, the ship of state is not going to sail, at least not for any great length of time.

So I hope to ask a series of questions today about the deficit once again, because I think it will prevent us from doing what we want to do with our future unless we decide to tackle it head-on.

So Mr. Chairman, thank you for giving me the opportunity to say that, and I look forward to asking some questions of someone who I think will contribute a great deal to this country's future.

Chairman GLENN. Thank you very much.

Senator Cochran.

OPENING STATEMENT OF SENATOR COCHRAN

Senator COCHRAN. Mr. Chairman, thank you.

I just want to add my word of welcome to Dr. Rivlin and my congratulations to you for your nomination. You are clearly very well-qualified for this position. You have chosen well in getting a presenter this morning in the form of the distinguished Senator from Michigan, who we all know and respect very much, and I look forward to your testimony.

Thank you.

Chairman GLENN. Thank you.

Senator Sasser.

OPENING STATEMENT OF SENATOR SASSER

Senator SASSER. Thank you, Mr. Chairman.

I've got a statement that I'd like to ask unanimous consent be included in the record in its totality.

Chairman GLENN. Without objection, it will be included.

Senator SASSER. I just want to very briefly welcome Dr. Alice Rivlin before the Committee this morning. Seeing Dr. Rivlin before this Committee brings memories flooding back to me of January 1977, when I first came to the U.S. Senate, and I had, I suppose—I won't say the great good fortune, and some might say the misfortune—of being assigned to the Budget Committee at that time. And I well remember this extraordinary woman who appeared before that Committee, who had all the answers to all the questions that all the Senators asked; and it was Dr. Alice Rivlin, who was then the head of the Congressional Budget Office.

Dr. Rivlin, I think you are uniquely qualified for the job to which the President-elect has nominated you. I look forward to working very, very closely with you in the coming months and coming years as we fashion a means of lowering this almost overpowering budget deficit, while at the same time working to get our economy moving, to produce jobs, to make the American worker more productive, and to hopefully enhance the quality of life and the strength of all of our people and the strength of our economy over the next 4 years.

So I think it is going to be a lot of work; there is going to be a lot of tension and a lot of pain, but I hope when we come out on the other end, we will have the satisfaction of knowing that we worked well together and can look back and say we did the job very well.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF SENATOR SASSER

It is an enormous pleasure to welcome Alice Rivlin to the Committee this morning. Dr. Rivlin's towering intellect and budget expertise are legendary. As the former Director, and one of the founders of the Congressional Budget Office, she was among the first individuals to sound the alarm over the budget deficit.

Dr. Rivlin has always been known as a straight-shooter and the *Washington Post* praised her and Congressman Panetta as "two of the most ardent opponents of false accountability." The Congress always knew that it would get the right information from her—no matter how painful it might be. It will be a refreshing change from past and present practices.

However, unlike most legends, Alice Rivlin has not rested on her laurels. And the country is the richer for it. After leaving CBO for the Brookings Institution, Dr. Rivlin continued her role as a deficit watchdog. Her congressional testimony and writings have been extremely helpful to those of us trying to wrestle with the budget deficit.

I could have not been more pleased that President-elect Clinton nominated Dr. Rivlin to join Leon Panetta at OMB as Deputy Director. One wonders whether the OMB position was created for Alice Rivlin or Alice Rivlin was created for the job.

This will be an incredibly strong team and Dr. Rivlin's enormous talents will be a perfect compliment to those of Congressman Panetta.

I look forward to hearing Dr. Rivlin's comments this morning, and I urge a speedy confirmation of her nomination.

Chairman GLENN. Thank you.

Senator Pryor.

OPENING STATEMENT OF SENATOR PRYOR

Senator PRYOR. Thank you, Mr. Chairman, colleagues, and Dr. Rivlin.

I had the privilege yesterday, Mr. Chairman, of spending a delightful 30 or so minutes in discussion with Dr. Rivlin, and I want to reiterate one thing in public that I said in private—our country, especially at this critical juncture, is very, very fortunate to have a person like you, who is willing to come back into government to help lead us out of the thicket; to help find some solutions and to remove us from the gridlock that has been ours for the past several years. I think our country truly is fortunate, Mr. Chairman.

I have a formal statement, Mr. Chairman, that I would like placed in the record, as well as a question or two. I am very proud that Dr. Rivlin is going to be doing what she knows best.

Chairman GLENN. Without objection, the full statement will be included.

Senator PRYOR. Thank you, Mr. Chairman

PREPARED STATEMENT OF SENATOR PRYOR

Mr. Chairman, I am pleased to be here for Dr. Rivlin's confirmation hearing. Dr. Rivlin is a fine candidate for the position of Deputy Director of the Office of Management and Budget and she gives me hope that we can work together to address many of the difficult problems facing us.

As we attempt to cut the deficit, we will be examining the way our government delivers aid and services to people. There are many ways to improve government and I look forward to working with the Administration to develop them.

As the Chairman well knows, for the past 14 years, I have investigated the way the government uses contractors and consultants. Last year, the government spent a

total of \$90 billion on contracts; \$10 to \$20 billion of that was spent on consultants. I hope that Dr. Rivlin shares my concern we not reduce the number of Federal employees and simply increase our reliance on contractors. That is not real reform; not a real savings.

As we continue to downsize the Defense Department, I will continue my efforts on the Defense Conversion Task Force to ease the transition, following up on the recommendations of the task force that were included in the fiscal year 1993 Defense Authorization and Appropriations bill. I know Dr. Rivlin will be involved in coordinating these activities and I look forward to working with her.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you very much.

While we have a quorum here, what we had worked out is that we would vote Mr. Panetta out today if we could. What has been worked out with the floor is that we will vote this out if it is the agreement of the Committee to do this, with a recommendation favoring Mr. Panetta's confirmation. Then, believing that there will be no objection to his confirmation that we know about at this point, this could be done at the appropriate time after the swearing in on Inauguration Day, by unanimous consent request on the floor.

I don't know whether there is any discussion of that here. I think that is agreeable to everybody, and your offices have been contacted on this.

So I would move that the nomination of Leon Panetta be reported to the Senate with a recommendation favoring Mr. Panetta's confirmation.

Senator ROTH. I second the motion, Mr. Chairman.

Chairman GLENN. Thank you.

Senator COHEN. May I inquire if he has been officially nominated?

Chairman GLENN. No, and that is a technicality that will be taken care of on that day; but we will already have preferred our Committee's duties on this, and it will be by unanimous consent on the floor, so that protects every Senator's right to object at that time if they disagree with it for any reason.

Is there any further discussion?

[No response.]

Chairman GLENN. All in favor, say aye.

[A chorus of ayes.]

Chairman GLENN. Opposed?

[No response.]

Chairman GLENN. The ayes appear to have it, and the confirmation will be reported favorably to the floor.

Senator Levin, to introduce Dr. Rivlin.

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Mr. Chairman, Members of the Committee, it's a real pleasure to present Alice Rivlin to this Committee, not just because she is a superb candidate and nominee whom I think each of us knows and admires, but also because the Committee that she appears before is a Committee that is made up of members who individually are committed passionately to issues that are important to this country—for example, issues relating to making government function more effectively and issues relating to getting the deficit under control. I think it is important that she appear before this

Committee, because the questions which you all care so much about are questions that are critical to this country, and each of you in your opening statements have touched upon them.

Alice Rivlin has devoted her life, her career, to public service. In the late 1960's, she was an assistant secretary of Health, Education and Welfare. Also, as many of you mentioned, she was the first Director of the Congressional Budget Office from 1975 to 1983.

She has first and foremost been associated with the Brookings Institution, immediately after college—indeed, during college. Presently, she is on leave from the Brookings Institution to be the Hirst Professor of Public Policy at George Mason University.

She is a prolific writer, almost as prolific as our own Senator Bill Cohen. She is the author of 14 books and dozens of articles. Listen to the titles of some of these articles. Twenty years ago she wrote an article entitled, "Why We Can't Get Things Done." We all should have read that in this country; we'd be better off. A couple of years ago, in 1989, she wrote an article entitled, "Continuing Search for a Popular Tax"—that was an instant bestseller.

She brought qualities to the CBO that she will now bring to OMB—very high standards of professionalism and honesty. We have all had to deal with "smoke and mirrors" budgeting, and Alice Rivlin is famous for opposing that kind of budget practice. She will bring that dedication and instinct against "smoke and mirrors" budgeting to her new position at the OMB.

She is honest, she is strong, she is tough. She is not a partisan, which is very important. I think we all know that the solutions to our problems in this country are not partisan solutions, and she has proven her dedication to a nonpartisan or a bipartisan approach to deficit reduction.

She has been steadfast in her commitment to deficit reduction, and she will bring that steadfastness and that commitment to the discussions inside this new administration. I would lastly say that her appointment is a courageous appointment for this President, as was Leon Panetta's, because both of them are committed to a course of action which involves sacrifice which is shared fairly by the American people in order to assure our economic future. It is not medicine which is sweet or that will easily go down, but in appointing these two to be the OMB Director and Deputy Director, the President has made courageous appointments which will benefit all of us, and which I think this Committee will applaud in terms of their commitment both to the operations of an efficient government, but also to deficit reduction.

Dr. Rivlin is accompanied today by her husband, Sid Winter, whom I have known for a long time; Sid's son, Jeff; her two daughters—her one daughter, excuse me, is not here, with two grandchildren. I believe she and the grandchildren are in California, but two sons are here today, Allan and Douglas.

I would conclude by saying that when public service is again viewed as a noble calling, as we believe it is, it will be because people like Alice Rivlin have dedicated their lives to public service. It is a real pleasure to present her to the Committee this morning.

PREPARED STATEMENT OF SENATOR LEVIN

I am very pleased to have the honor of introducing to this Committee today, Alice Rivlin, nominee to the position of Deputy Director of the Office of Management and Budget.

In response to one of the Committee's pre-hearing questions—"Do you know why you were chosen for the nomination by the President?"—the nominee responded, "I believe I was chosen because I have extensive experience in Federal budget and policy issues." Anyone who is familiar with Ms. Rivlin's work in public policy over the years (and I would find it hard to believe that anyone involved in public policy would not be aware of her contributions) and has reviewed her biographical background will agree that that is exactly why President-elect Clinton has nominated her to be an integral part of his economic management team. In the case of Alice Rivlin, "extensive experience" is an understatement.

Starting with Ms. Rivlin's educational background, you can definitely see a trend—a B.A. in economics, an M.A. in economics and a Ph.D., surprisingly enough, in economics. Over the course of her career, she has built on that economic foundation through a number of senior-level public policy positions. For example, she served in the Johnson Administration as Assistant Secretary for Planning and Evaluation at the Department of Health, Education and Welfare; she was the first director of the Congressional Budget Office and headed that office from 1975-1983; she has had a long-standing association with the Brookings Institution. In these positions and throughout her career, she has worked with a host of Federal agencies, the Congress, State and local authorities, and the private sector. She has worked with people on the team who will address our current budget deficit and who will work to form long-term, effective economic policies for this country. This diverse background makes her uniquely qualified for this position.

Her expertise is well-documented. She has written over 14 books focusing on various economic policy issues ranging from *The Swedish Economy* to *Caring for the Disabled Elderly: Who Will Pay?* Thirty years ago, she wrote a book on education entitled, *The Role of the Federal Government in Financing Higher Education*, and 20 years ago, she wrote an article entitled "Why Can't We Get Things Done?" Her vision appears to be timeless.

Alice Rivlin has spent her career researching, developing and supporting recommendations for action regarding the core economic issues affecting this Nation. She is eminently qualified and an excellent addition to the President-elect's economic team. I hope this Committee and the full Senate act quickly to confirm her to the position of the Deputy Director of OMB.

Chairman GLENN. Thank you, Senator Levin.

Dr. Rivlin, what I'd like to do is swear you in, and then Senator Roth is under a very tight time schedule for some extensive travel and will have to leave very shortly, so what I'd like to do is let him ask his questions even before your statement, if that's OK with you, Dr. Rivlin.

Dr. RIVLIN. Absolutely.

Chairman GLENN. Fine; if you'll rise, please, and raise your right hand. Do you swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Dr. RIVLIN. I do.

Chairman GLENN. Thank you.

We have three questions that I am required to ask, and I'll begin with those, and then turn to Senator Roth.

Is there anything you are aware of in your background that might present a conflict of interest with the duties of the office to which you have been nominated?

Dr. RIVLIN. No, there is not.

Chairman GLENN. Do you know of any reason, personal or otherwise, that would in any way prevent you from fully and honorably discharging the responsibilities of the office to which you have been nominated?

Dr. RIVLIN. No, I do not.

Chairman GLENN. If confirmed, do you agree without reservation to appear and testify before any duly constituted committee of the Congress?

Dr. RIVLIN. Yes, I do.

Chairman GLENN. Thank you much. I know it is a little unusual to have questions before your opening statement, but we'll recognize Senator Roth now. We have a 6-minute rule since we have a number of people here this morning.

Senator Roth.

Senator ROTH. Thank you, Mr. Chairman, and thank you, Dr. Rivlin.

As the Chairman pointed out in his opening remarks, I think nothing was more shocking than the statement by the General Accounting Office that there was no program, no department, no agency well-managed, and finally coming up with only the Army. But I think that is a very basic reason why the American people are so dissatisfied with government. They don't see it solving problems.

So I think the "M" in OMB is of critical importance. I also think it is critically important that we restructure the government for the 21st century. And that is not, as Bill Cohen pointed out, just a problem of developing a new trade department, of which I am a great proponent, but it is also eliminating and simplifying, so that government can work effectively, and equally important, that people can understand how it works.

Now, both Leon Panetta and myself have introduced legislation to create a commission to restructure government. Leon Panetta strongly supported that concept yesterday, and I wonder what your views on this are.

Dr. RIVLIN. I do think we need restructuring of government very badly, and simplification of how the government is organized, and a commission strikes me as a good idea. I don't know that there is a Clinton administration position on this—

Senator ROTH. I understand that.

Dr. RIVLIN [continuing]. But if I were a new President coming in, I would welcome such a thing. It is very difficult for a new President to put his attention on exactly how the government should be organized. Having the benefit of the views of a commission could be very useful.

Senator ROTH. As part of that reform, I think it is important that we begin to establish performance goals for our various programs, both by the Congress and by the executive branch. That gives us a means of understanding, of analyzing, of overseeing whether or not the money that is being expended in a program succeeds or not.

How do you feel about creating performance standards—and let me just as an addendum make the point. We have just created, thanks to the leadership of our Chairman, something that I have been very much interested in, the chief financial officers. Shouldn't we be forming the kind of accounting records that will help give the kind of information we need for performance?

Dr. RIVLIN. Yes. I am a long-time advocate of improving the evaluation of government programs and the measurement of performance of government activities. I think it is time for a new try.

Now is not the first time that people have thought about this, obviously. I am also a veteran of several previous experiences—the planning/programming/budgeting system and others. So for that reason, I welcome the spirit of S. 20. S. 20 takes a strong position in favor of better measures of government programs, but recognizes that we are a long way from being able to measure everything that the government does. It would be good to try some of these things out in a demonstration mode before we make the mistake that has been made in previous attempts—overloading the system with paperwork. The tragedy, if that's not too strong a word, of the planning/programming/budgeting system was that a good idea fell of its own weight because there was simply too much paperwork involved.

Senator ROTH. In your recent book, you talk about the desirability of trying to sort of what level of government takes responsibility for what, an idea whose time I think has come long ago. It is obviously controversial. But at the same time, I think when you have a Democratic President and a Democratic Congress, you have an opportunity to do something in this area.

It's a little bit like when Nixon went to China. It would have been difficult for a Democrat to do it. For Republicans to suggest that we fix responsibility at the State and local level, many people immediately think, well, they are just trying to kill the program.

So as I say, I think the Democrats have a God-given opportunity to make some major decisions in this area. I wonder, is this an idea that you think this administration will move forward; is it something that you will push on the basis of your very eloquent statement in your recent book?

Dr. RIVLIN. I believe strongly—or I would not have said it so strongly in the book—that it is time to rethink who does what, particularly as between the Federal and the State levels. This notion that it is time to rethink has struck a positive note among many governors including Governor Clinton, with whom I have had interesting discussions about the subject.

Exactly what will happen over the next several years as the administration's policy unfolds, I obviously can't say. Right now everybody is preoccupied with filling the slots and figuring out what's the first thing for the Federal Government to do. But I think we will have further attention to this question over the next several years.

Senator ROTH. If I could ask one last question, Mr. Chairman, the *Washington Post* criticized the current President's baseline budget assumption that discretionary spending will be constant starting in 1995. Many people believe this is reasonable given that reductions in defense spending will offset current service increases in domestic spending. Even the President-elect's program has defense declining.

Isn't the OMB baseline for discretionary spending reasonable, given the downward path for defense? And just let me make this further observation. Budget Director Panetta stated in his confirmation hearing that he will not resort to smoke and mirrors in budgeting. Now, an inflated baseline will enable some to claim bigger spending cuts, when in fact no actual money is being spent. I would ask you what your view on inflating the baseline is, be-

cause I think for the average person back home, when you talk about cutting spending, as a family, they say that means cutting from what you spent during the current year. They don't look upon a cut to project increased spending and then cut it from that.

What is your view on that?

Dr. RIVLIN. I think one can define a baseline in several different ways, and really, the important thing is for everybody to understand how it is defined and what the starting point is.

The Congressional Budget Office takes the current law as far as it goes, which in this case are the caps through 1995, and then says we will assume for baseline purposes that you hold spending constant in real terms. And that, from an economist's point of view, is a reasonable thing to do—

Senator ROTH. How about the American people and their understanding of that approach?

Dr. RIVLIN. Well, I don't know whether the American people think in real terms or not. I believe that if you cut the COLA on Social Security they would think they were getting a benefit cut; that if you froze it at its dollar level, you would not convince the American people they were not getting a benefit cut.

So I think you can use either an inflation-adjusted line or a freeze, as long as everybody knows what it is and what your starting assumption is; and then the point is where do we go from there.

Senator ROTH. But defense is going down, isn't it?

Dr. RIVLIN. Defense is going down. The big question will be "how fast?"

Senator ROTH. Well, I thank you for your courtesy of letting me ask the questions, and I appreciate your assistance.

Thank you, Mr. Chairman.

Dr. RIVLIN. Thank you, Senator. I appreciate your being here.

Chairman GLENN. Now we'll have your opening statement.

TESTIMONY OF ALICE M. RIVLIN, NOMINATED TO BE DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Dr. RIVLIN. Thank you very much, especially Senator Levin for his very gracious introduction, and everyone else for their gracious welcomes.

When you are moving offices, you find a lot of old stuff, and one thing that I found last week was something that I wrote some years ago which referred to "the lively new Senator from Michigan, Carl Levin." Some things don't change. The budget deficit gets bigger, but the Senator from Michigan remains lively.

I am very pleased to be back before this Committee, where I have appeared many times before in my 8 years on Capitol Hill, and I am very pleased to be back in the budget world, difficult as it is, and in contemplating government service again.

I am honored that President-elect Clinton has nominated me to be Deputy Director of OMB, and I am particularly pleased to have the opportunity to work with Leon Panetta. Chairman Panetta and I have known each other for a long time, more than 20 years. We work well together, and I believe that we can build a very strong team at OMB that this Committee, among others, will be proud of.

Let me say just a few words about some values that I believe Chairman Panetta and I both hold. One is a very deep concern about the deficit in the Federal budget. I believe the deficit is the greatest long run threat to the health of our economy. We have to stop living beyond our means—as a government and as a Nation.

The deficit is so large that it cannot be fixed quickly. We have dug a very deep hole, and it will take a while to climb out. But this administration and particularly the OMB will put a great deal of attention on the deficit—we will make a lot of people mad at us by reminding them of the importance of the deficit.

I also believe—and both Chairman Panetta and the President-elect have stressed this—that we need an OMB that gives everybody the straight story. We hope to give to the President, to the Congress, and to the country honest assessments of what the situation is that we face, where the budget is headed and what will happen if various policies are adopted.

Now, we won't always be right. Forecasting anything is a very uncertain art, and economic forecasts are often wrong, and even when you have a correct economic forecast, you can't be sure exactly what budget projections will hold. But we will do our best to give you and everybody the straight story.

One thing I care especially about is making the budget document more usable and more comprehensible. For openers, it would be nice to have a book that you could put in your briefcase. I think we can promise you that the big monster book is a thing of the past. We will go back to a portable budget. It will, of course, have to have an appendix, but there will at least be something that you can carry around with you, and I hope it will be increasingly readable and understandable.

One of the problems, I think, in the budget process and in the public's view of the government is that nobody can read the budget; it is totally incomprehensible. There is no way to make it simple. But I hope we can make it more understandable.

Finally, and perhaps most important, let me emphasize that budgeting is not the end of the story in government; it is indeed the beginning. Once we get a budget, the important thing, as many of you have stressed on this Committee, is managing the government well and getting full value for the taxpayers' money. I believe, as I said earlier in response to Senator Roth, that it is very important to evaluate what government programs do; it is important to produce auditable financial statements so that we know what happened to the money; it is important to tie those audits into reviews of government performance.

That is another way of saying that the "M" in OMB is extremely important. Now, OMB cannot manage the government. All it can do is be the focal point and a source of leadership in helping the agencies manage their activities better.

Similarly, OMB is not a regulatory agency, but it must review regulations, to be sure that the government is not overregulating and that regulations of different agencies don't conflict.

So those are some of my thoughts on entering with some trepidation on this new experience, and I hope to be back many times in front of this Committee to share with you what we are finding and to get your views on what we ought to do.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you very much, Dr. Rivlin.

As I indicated earlier, we follow the early bird rule here regardless of party affiliation, and we are on a 6-minute rule since we have a number of people here this morning.

My first question this morning would be this. We've had a lot of talk back and forth about the increase in the deficit, whether the figures were cooked or not cooked or whatever. Do you have any figures that you could give us this morning in that area? Do you think it is going to be possible for President-elect Clinton to maintain his pledge to cut the deficit in half by fiscal 1996?

Dr. RIVLIN. Well, that's a subject very much under discussion in the new administration at the moment. The situation is clear—the problem is clear. President Clinton wants very much to reduce the deficit. He also wants to be sure that the economy is coming out of the recession at a healthy rate, and he wants to fund some of the new investments that he talked about so much in the campaign. The problem is how to put that all together.

The deficit problem is a little worse than it was when he made the pledge to cut it in half. Whether that is exactly doable is not yet clear. But one thing I think I can assure you of is that we will produce a plan that gets the deficit down. The important thing is to get it going in the right direction.

Chairman GLENN. Do you have any figure of your own that you think is a real solid rock figure of how much we could expect to be cut here, something that would be sort of a bottom line that we could rely upon—rather than just saying half by so-and-so, or whatever?

Dr. RIVLIN. No, because the exact goal is very much under discussion at the moment. Cutting in half is obviously quite an arbitrary goal. It would be more sensible from an economic point of view to define the goal some other way, to bring the deficit down as quickly as is compatible with keeping the economy growing. And there is discussion, of course, about how fast that is.

Chairman GLENN. Of course, this is a balance between expenditures and revenues coming in. I believe you have been quoted in the past as favoring a gas tax, consideration of VAT, changes in Federal-State relationships that you mentioned a moment ago. Over on the revenue side, can you give us any ideas of where you think we ought to go in that area?

Dr. RIVLIN. No, except that it is clear that this budget deficit problem cannot be solved by moving any piece of the budget alone. A solution has got to include bringing spending down, both defense and domestic; it has to include entitlement programs, and it has to include revenues.

There is no other way to get there without including all of those things. Leon Panetta said Monday very clearly that he felt that everything ought to be on the table. I share that view.

Chairman GLENN. That was one of his key phrases the other day; we heard that a number of times the other day, that everything was on the table.

The deficit does need to come down, and everybody agrees with that. But if it is cut too quickly, it could hurt the economy in the

short term, of course. There are conflicting calls for stimulus or deficit reduction. What are your views on that?

Dr. RIVLIN. The economy is clearly coming out of the recession rather slowly. One would have hoped for a faster recovery. For that reason, there is certainly a strong case for caution in cutting the deficit in the near term. Some additional investments, some of the things that the campaign emphasized, should be moved up front to help ensure that the economy comes out of the recession quickly.

This should all be part of a multi-year plan, a 5-year plan, that leads to deficit reduction. But I think no one would advocate rapid deficit reduction in the near term. Some of the things that would help get us out of the recession more quickly ought to be put up front.

Chairman GLENN. Do you feel we need to lower interest rates any more? Should the Fed take the interest rates down as a stimulus?

Dr. RIVLIN. Well, I am not here as a candidate for running the Fed, but clearly, we need the cooperation of the Federal Reserve. If the budget deficit declines, and the Federal Reserve does not ease money, then we will have a disaster. Budget deficit cutting depends on accommodation from the Federal Reserve.

Chairman GLENN. There is a continual problem of how we encourage savings, how we get more investment, how we direct ourselves away from consumption. Now, the Strengthening of America Commission of which you were a member proposed—and I don't know whether you agreed with all of their proposals or not—but they proposed to abolish the current income tax system in favor of a new consumption-based system to try to stimulate greater savings and investment. In your answers to our pre-hearing questions, you seemed to question the idea. What are your views on that?

Dr. RIVLIN. Well, I think it is a very interesting idea, and in an academic role, I think I would say very definitely to be explored. The basic idea is to convert the income tax to a consumption tax by telling taxpayers you pay on your income minus your net contribution to saving, which is by definition what you consume. The advantage of that is that you can have a consumption tax which is not regressive. The problem with most consumption taxes is they fall more heavily on low-income people.

This is an interesting idea, and if we had such a tax now, I think it would be terrific. The problem is getting from here to there. With a consumed income tax the government would be saying to older people, who are now living on their savings, you have to pay on those savings because they are part of your consumption, and older people would, quite rightly, say wait a minute—under the old system, I've already paid on that; I paid when I earned that money, and you can't ask me to pay again.

So there are enormous transition problems in getting from an income tax to a consumed income tax, and I am not sure that the technical problems of the transition would be worth the gain.

Chairman GLENN. My time is up, but just one more question. If you went to that system, would you make certain exemptions for certain levels of housing, basics of food, shelter, clothing, and things like that, or would everything be on the table, to use that term again?

Dr. RIVLIN. Everything would be on the table, but you would presumably have a standard deduction as you do in the current income tax, so that everybody would have a basic level of consumption free of tax and then would pay at progressive rates after that.

Chairman GLENN. Senator Cohen.

Senator COHEN. Thank you very much, Mr. Chairman.

Dr. Rivlin, in citing your past words about Senator Levin, I think you have already confessed error. Your baseline assessment of his metabolic rate is substantially understated. [Laughter.]

Senator COHEN. And I think I can say that is the unanimous opinion on this Committee.

In response to some of the Committee's questions, and the one specifically about reorganization, you said you saw no immediate prospects for reorganization, and it is an issue sort of like the weather. Everybody always talks about it, but no one does very much about it. I was reading a book, which you also might have difficulty fitting into your briefcase. It was Hedrick Smith's book called *The Power Game* and I came across an interesting quote from Stu Eizenstat, a fellow colleague of yours. He said, "The fact is, OMB enabled President Reagan to hit the ground running. It enabled him to get his package up to Congress very early, without delay, before opposition could form, both within the executive branch and within the Congress. That, to me, was a quintessential event in the entire administration because had Reagan gotten off to a slow start on budget cuts, had he permitted opposition to grow within the executive branch, and had opposition had a chance to form on Capitol Hill, you might have seen a very different situation with respect to the success of the cuts."

Basically, what Stu Eizenstat was saying to Smith is that knowledge and swiftness of action are the key to success. There have been some doubts raised as to whether or not President-elect Clinton is going to be able to hit the ground running. According to the *Washington Post* today, there is some doubt about that.

We have Leon Panetta who has recommended that the number of Cabinet positions and departments be reduced from 13 to 8. Yesterday, the *New York Times* laid out how you could reduce it to 7. Senator Roth has talked about forming a commission to study it. My own reaction to that is that if you lose this opportunity in the next 2 years by farming it out to a commission, you are going to come back 2 years later and have lost that opportunity for fundamental change.

What is to prevent President-elect Clinton during his inaugural address from announcing that he intends in fact to restructure government along the lines recommended by his Director of OMB and presumably his deputy?

Dr. RIVLIN. I don't know whether either President-elect Clinton or Director-designated Panetta would, from their new vantage points, endorse everything that was in the Panetta plan.

I have no doubt that this administration will hit the ground running, but I think like most administrations, the important thing at the moment is to focus on the major policies that were emphasized in the campaign. This President was elected because he promised to turn the economy around and to increase investment in our future.

So not surprisingly, the focus is on those things, and it is a large order to get an economic plan together and up here to the Congress and to make the decisions that are needed in doing that.

I don't think it will be a wasted opportunity to wait on reorganization. If an immediate plan for reorganizing the government were sent up here to Capitol Hill, I think that's all anybody would talk about for quite a long time. Other policies would take a back seat. And there is no way that that's in the interest of the country.

Senator COHEN. All Stu Eizenstat and others are suggesting is that you have a small window of opportunity to make fundamental change. If that window closes, and it is likely to close very quickly, you will find the various interests and groups solidifying their positions. We have had articles written about something called "demosclerosis," a disease which has infected the government apparatus; that namely, once something gets established, every interest group will fight tooth and nail to keep it. I should say through the electronic nail as well because they can bring to bear thousands of letters overnight to fight any particular proposed change.

So I think that to the extent we defer this for another 2 years or 3 years or 4 years, you will have lost that opportunity.

Let me focus next on spending caps. You have indicated you do not favor spending caps on entitlements because they are arbitrary and unfair and do not reflect the kind of judgment that should be exercised in determining which programs should be entitled to grow and which programs should be cut.

Can you tell me which of the entitlement programs you feel should be reduced as opposed to an across-the-board cap?

Dr. RIVLIN. Yes. When you look at entitlements, the thing that hits you is that the health care programs are growing so rapidly that this growth is unsustainable. Medicare and Medicaid are the big growth items within the entitlement programs and within the budget as a whole. The deficit projections toward the end of the century are scary—they show the deficit rising, if nothing else is done, very rapidly after 1996 to astronomical levels. And the reason for that is that health care costs are rising so rapidly.

The use of health care costs is not just a Federal budget problem. Health care costs are rising in the private sector as well, even more rapidly. So the first point of attack on entitlement programs, I think, is reform of the health care financing system, which President-elect Clinton has promised. That will be an early order of business.

Senator COHEN. Just one final comment, Mr. Chairman. As I understand it, in your book, you argue in favor of setting national spending caps and government-set rates for all health care providers. Is that correct?

Dr. RIVLIN. Oh, I said lots of things when I was an academic. Yes, I suggested that as a possible reform. It is not necessarily the way this administration will go.

Senator COHEN. OK. We'll explore that in the second round.

Chairman GLENN. Senator Levin.

Senator LEVIN. Dr. Rivlin, some people are already saying that the Clinton economic plan is behind schedule and has lost some momentum—

Dr. RIVLIN. We aren't even in office yet, and they are saying that.

Senator LEVIN. Exactly. One report, for example, compared the pace of the Clinton plan unfavorably with President Reagan's budget submission in 1981.

Now, to provide some perspective, I went back and checked the time frame for President Reagan's presentation of that economic plan, putting aside the fact that some of us might have wished he had taken a lot more time before he presented that economic plan—in fact, some of us would have preferred that he had taken years and maybe decades before he ever presented that economic plan—putting that aside, looking at the Reagan time frame, he announced to the Congress his program for economic recovery on February 18, 1981. He described that as his initial budget proposal, and he noted that a complete budget submission to the Congress would be presented on March 10, 1981. He did submit that on the 10th, and that was called "Budget Revisions."

Then, on April 7, 1981, he submitted another document to the Congress entitled, "Additional Details on Budget Savings." That was the thickest of the documents.

My question, Dr. Rivlin, is this. Do you anticipate that the Clinton economic plan will be presented to Congress in roughly the same time frame as President Reagan submitted his economic plan and its details to the Congress?

Dr. RIVLIN. We do. We expect, although final decisions have not been made, that an economic plan will be presented sometime in February and that the budget details will be up in March.

Senator LEVIN. The question has also been raised about the budget deficit projections, as to the changes in those projections and the fact that the budget deficit now appears to be worse through 1996 than it did some months back. One argument has been that while it appeared worse in August than it did at the time that the Clinton economic plan was proposed, and according to one estimate, at least, a CBO estimate in August, it was worse than the assumptions made in the Clinton economic plan.

But putting that aside, is it not also accurate that the January OMB budget deficit projections, this month's budget deficit projections, are significantly worse than the prior OMB budget deficit projections, and that they are in fact now even worse than the CBO's August budget deficit projections through 1996?

Dr. RIVLIN. Yes, all of that is true. The outlook for the deficit has worsened with successive reports from OMB and CBO, and now OMB again, over the year. But I think this can be overemphasized. The real point is—and we shouldn't lose sight of it—that all of us have known for a long time that the budget deficit is very large and that these new numbers just reinforce and make a little worse what we actually already knew.

Senator LEVIN. And the worsening deficit also assumes some rosy assumptions relative to inflation by the OMB for 1996 and 1997. Is it not correct that the 1996 and 1997 deficit projections of Director Darman do not assume any inflation for discretionary spending in 1996 and 1997?

Dr. RIVLIN. The Darman document gives a number of different baselines, and one that they have emphasized is no inflation, and

then they have some even more drastic ones that hold down spending by means of various caps, so that the deficit numbers appear smaller.

On a comparable basis, however, what we see, looking at the numbers that the campaign was using for 1997, which is around a \$300 billion deficit, is that the basic situation has worsened by about \$60 billion.

Senator LEVIN. You have made reference to honesty in the presentation of the budget, and we commend you for that; it is in keeping with what you have always stood for, and it is important to us that we not only have a more simple presentation and a clear presentation, but that we also have a consistent presentation year to year so that the format does not change year to year and make it impossible to quickly get into the budget as it is presented to the Congress. So the more consistent you can be year to year, the better it is as well.

I also commend you and Congressman Panetta on your determination to do something significant and bold on deficit reduction. You are going to find a lot of bipartisan support here for it. I know it is true in terms of the feelings that we hold. I hope it will also be true when it comes to the tough votes that we are going to have to cast. Tough decisions have to be made inside the administration on that, but you need a partner in Congress to join you in some of the tough votes on both the cuts that have to be made in spending, the restraint in spending, and on the revenue increases that are essential if we are going to have deficit reduction.

My time is up. Thank you.

Chairman GLENN. Senator Dorgan.

Senator DORGAN. Thank you very much, Mr. Chairman.

Dr. Rivlin, you have described yourself as a "fanatical, card-carrying middle-of-the-roader," and I assume with that description that you are discussing politics. But undoubtedly, you are a passionate advocate for certain kinds of economic policies. Can you describe once again for the Committee the kinds of policies that you feel passionately about that are necessary to fix what is wrong in this country?

Dr. RIVLIN. Well, I think I have emphasized one of them already, and that is deficit reduction. That is an overall policy. There are different ways of getting there, and I think that is always a compromise process. I might have favorite ways, and everybody around this room has favorite ways, but in the end, everybody will have to give up something. We will have to have shared sacrifice to solve this problem.

Senator DORGAN. But beyond deficit reduction, let's assume for purposes of this discussion that we are on the way to doing that. What other kinds of economic policies do you feel passionately about that we must move forward if we are going to fix what is wrong in this country and have some economic growth in the long run?

Dr. RIVLIN. I think we need more public investment, wise public investment. Not all investments are good investments. But we do need to fix the infrastructure, and we particularly need to improve the quality of education and training and upgrade the skills of the labor force. Otherwise we are just not going to be able to compete

in world markets, and we aren't going to have a rising standard of living.

I think we need to emphasize technology, research, and development. I believe very strongly that we need a drastic reform of the health financing system. I will be working on that very hard.

Senator DORGAN. Do you believe there needs to be some sort of national economic plan or strategy in this country? Everybody calls it something a little different, but should there be some sort of national strategy by which we are attempting to grow?

Dr. RIVLIN. It depends what you mean by that. We do pride ourselves as a Nation on not planning, and I think we have prided ourselves too much. Some years ago, before the end of the cold war, I had a very frustrated Yugoslavian economist in my office. He said, "You know, I've been all around your government, and everybody has been so nice and so polite, but nobody will show me the plan." He couldn't believe there wasn't one.

I would not advocate of our going to structured plans that some governments make, where you try to lay out what will happen in the steel industry and what will happen in other industries. I don't think that has been a successful process. We do need much more thought and active strategy for how we are going to make the economy grow. I think that is different from planning.

Senator DORGAN. I would like to ask more questions about that, but my time is limited. I guess if we are going to ask America to become a team, the question is to the coach: What is the plan? And we have prided ourselves in not having a plan and letting the market system develop whatever plan it develops.

Let me ask a couple of other quick questions. Democrats and Republicans have at the start of every year for the 12 years that I have been in the U.S. Congress been listening to people who come before us from the Office of Management and Budget representing an administration. The message is unchanged—and it is really unchanged this morning. The message is that the deficit is a serious problem, that it is going to cripple this country's future unless we deal with it, and that our plan will actually move toward a solution. That has been an identical message from every administration and every Director and Deputy Director of OMB.

Why is this any different? Why should the American people believe that this message, this time, is actually going to move toward a solution to the deficit problem?

Dr. RIVLIN. I can think of two reasons. One goes back to what Chairman Panetta said about everything being on the table. One of the impediments to getting real deficit reduction has been past administrations taking some parts of the budget off the table and saying that all of the solution has to come in other parts. That is too tough.

The other reason is that this administration really wants to reach out to the Congress and work out a compromise that will be enactable. We'll see how that works, but there certainly will be a very real effort to put together something that can actually pass and be enacted.

Senator DORGAN. Do you believe in the main that the deficit problem has resulted from extraordinary growth in entitlements? Would that be a fair characterization of how you see the deficit?

Dr. RIVLIN. No, I don't think the past deficit problem has been primarily related to entitlements. The future one certainly is as we face the growth in health expenditures. But the past problem was created by simply cutting taxes early in the eighties without cutting spending commensurately.

Senator DORGAN. And doubling defense at the same time?

Dr. RIVLIN. And doubling defense—well, increasing defense very rapidly at the same time. And it would have been possible to cut revenues and increase defense if everything else had been brought down, but it wasn't.

Senator DORGAN. And if the future deficit reflects the problem of rapid growth in entitlements, I think Senator Cohen has asked the question about which entitlements, then, do you intend to address or do you recommend we address this issue? Your response dealing in particular with the rapid rise in the price of health care would tend to abate that. But is there more than that? I mean, let's assume we deal with health care. Do we go beyond that, and if so, where?

Dr. RIVLIN. I don't think we should rule out some adjustments in other entitlements, especially other non-means-tested entitlements. I don't think anybody wants to hit the poor. But the non-means-tested entitlements have to be part of the solution.

Senator DORGAN. You are understandably very careful when you discuss this. And we are very careful when we ask the questions for lots of reasons, the most important of which is that once you start talking about specifics, there develops a political mushroom cloud over this discussion. That's the point that was made the other day when Mr. Panetta was here. Ultimately, we've got to get beyond the general and start discussing specifics—how, really, do you address growth in entitlement spending in a manner that responds to bring the deficit down?

Dr. RIVLIN. Well, that's right. The only reason I'm being careful is because I am part of an administration that hasn't made up its mind yet. I can't get out ahead of the President-elect on this, and neither can Leon Panetta. But I think you will see when the President's plan is announced a very specific, broad-based plan.

Senator DORGAN. I understand, and I appreciate your response. I do have a number of other questions, and I'll wait until the next round. Thank you.

Chairman GLENN. Senator Sasser.

Senator SASSER. Thank you, Mr. Chairman. I have been sitting here listening this morning, and I must say that I am more reassured than ever listening to the answers to some of the questions that you have given to my colleagues here this morning.

I was fascinated by the conversation about whether or not we've got any plans in the government of the United States. There is one plan. One department had a plan. That was the Department of Defense. We had an industrial policy in this country, and it was run by the Pentagon. And they were very successful, and they ended up producing the finest military apparatus on the face of the earth—that was industrial policy, or a government plan, run by defense and military planners.

I think that is now obsolescent, given the turn in world events, but it does indicate that government planning can be successful in some areas if you don't care what it costs. That was a costly plan.

Dr. Rivlin, these out-year deficits that we are seeing now, and the deficits in the more current years—the current year deficits are going up, I am sure you will agree, primarily as a result of poor economic performance, loss of revenues, revenues falling off. And the out-year deficits are going up precipitously because of mushrooming health care costs. I was pleased to hear you respond in answer to one question that the best way to attack health care costs is restructuring the health care system. I think that has got to be primary, as opposed to simply trying to rush out and put lids or ceilings on health care costs.

In your book, *Reviving the American Dream*—we politicians learn never to write books, because people always come back and quote them—but in your book, you make a strong case for expanding access to health care for all Americans. And you address the cost problem, and you say—and I will quote, if you don't mind; these are your words—"The Federal Government is better suited than the States for resolving the health cost crisis." You continue on to say: "It should take the lead in controlling the growth of health cost while assuring universal access to health care."

You point out in your book, I think quite accurately, that, "Our piecemeal efforts to control health costs have not worked," that "cutting Medicare hospital costs has led to higher costs for other payors"—and that's what hospital administrators tell us, that they pass off the losses in Medicare to those who've got Blue Cross, Blue Shield, or good health insurance policies—and that "lowering Medicaid rates has had the effect simply of having less access to adequate health care for the poor."

So you call for the Federal Government to set rates for all health care providers. I am interested in that. Could you talk for just a moment about how you reached these conclusions?

Dr. RIVLIN. Well, the general point that the Federal Government has to take the lead in controlling health care costs, I think, is well acknowledged and shared quite widely. This is not a problem that the States by themselves can deal with very easily, although many of them have been making valiant efforts. There are very interesting experiments in various States in holding down health care costs. But this is a national problem and I think it has to be dealt with by the Federal Government.

That doesn't mean that the system has to be uniform in all places, but the Federal Government clearly has to take the lead.

There is a very interesting debate going on now about exactly how to do that, and there are options being discussed within the Clinton administration and within the Congress, and I think one of the most fascinating things of the next year will be for all of us to try to figure out how to solve this problem.

Senator SASSER. No question about it, and I look forward to getting the recommendations from the new administration and from your Office of OMB as to how we should proceed in that regard.

You said in answer to another question a moment ago that, yes, deficit reduction should be one of our top priorities—I am paraphrasing your response—but we need to use caution in cutting the

deficit in the near term so as not to nip off what so far has been a pretty lethargic economic recovery.

You have also said we need to move investments up front in an effort to get to some long-term growth.

I'd just like to ask you at what level of GDP growth do you think the economy would be strong enough to bear some significant contraction of the deficit? Do you have any figure in mind at this juncture?

Dr. RIVLIN. Not exactly. The economy is clearly operating below capacity at the moment. The unemployment rate is higher than it should be and has been coming down very slowly. So at the moment, it would be risky to engage in too much deficit reduction; indeed, we need to engage in some stimulus of the economy. But stimulus won't work unless it is embedded in a plan for bringing the deficit down as soon as the economy gets to capacity. If it is not, we will have interest rates rising rapidly, and the recovery will be aborted from that source.

So it is a tricky balancing act to put together a plan that will enhance the recovery in the near term and reassure everybody, including the financial markets, that we do have a plan for bringing the deficit down as quickly as the economy approaches capacity.

Senator SASSER. My time has expired. Thank you, Dr. Rivlin.

Chairman GLENN. Senator Lieberman.

OPENING STATEMENT OF SENATOR LIEBERMAN

Senator LIEBERMAN. Thank you, Mr. Chairman, and good morning, Dr. Rivlin.

Mr. Chairman, I have an opening statement which I regret that I was not here to deliver, and I would ask that it be included in the record. I presume that regret of mine is not shared around this table, noticing the glee of my colleague and dear friend from Maine, Senator Cohen.

Chairman GLENN. Without objection, it will be included in the record.

PREPARED STATEMENT OF SENATOR LIEBERMAN

Dr. Rivlin, it gives me great pleasure to join my colleagues in welcoming you before this Committee this morning. I think it is safe to say that you are one of the most eminent and highly-qualified nominees for the position of Deputy Director that this Committee has seen.

The team President Clinton has selected to run the Office of Management and Budget gives me great hope for his administration. In Leon Panetta, we have one of the Congress' top experts on the federal budget, and the choices and problems it presents. In Dr. Alice Rivlin, we have a person with an excellent analytical and economics reputation, who long ago mastered the intricacies of the budget and its projections and assumptions during her tenure as head of the Congressional Budget Office. It would have been exceedingly tough for President Clinton to find a more talented combination to confront the budget and management problems in our government.

You will have a tough job. As I said at Chairman Panetta's confirmation hearing, too many Americans now view their government as out-of-date, out-of-touch, and out-to-lunch. Exhibit A in their case is our ever mounting federal deficit. And Exhibit B is a federal bureaucracy that is viewed as archaic, inefficient and unresponsive.

Your job will be to help President Clinton restore faith in government. To do this, we—the President and Congress—must demonstrate the leadership to explain our deficit problems to the American people—to level with them—and to enact a true deficit reduction package based on "fair share sacrifice." The American people, I be-

lieve, have a legitimate sense of crisis about the deficit, and are willing to bear a shared burden in order to really address it.

At the same time, we must also demonstrate that government is not immune from sacrifice. We will have to do more on less money. We will have to make government more efficient, more productive, and more service oriented. None of us likes to go to restaurants where the service is lousy, and we should not inflict that on the American people.

Finally, we must do this in a thoughtful way. We must not slash our defenses so drastically that we cannot defend ourselves today. Likewise, we must not destroy our ability to produce the weapons of the future. In making our budget choices, we must be both penny and pound wise. We must make sure that short term objectives do not hurt long term strength.

Dr. Rivlin, you and Chairman Panetta have one other task that will be critical to President Clinton. You must restore the credibility of the Office of Management and Budget and set the stage for the president, once again, to be a player in setting our nation's budgetary priorities. There cannot be any more "rosy" economic scenarios, or cost-benefit analysis driven by ideology rather than sound analytics. Unless OMB is perceived as having a "neutral competence" it will cease to be a player in recasting our budget or our government.

Dr. Rivlin, I look forward to working with you in your new post. Congratulations and, again, welcome before this Committee.

Senator LIEBERMAN. Dr. Rivlin, let me just say in one sentence what I was going to say in many words in my opening statement, which is that we are lucky to have somebody of your extraordinary ability and experience to take this second position at OMB, and I think together with Leon Panetta, you will really form a dynamic duo over there, and we look forward to working with you.

Dr. RIVLIN. Thank you.

Senator LIEBERMAN. I want to pick up somewhat on what Senator Sasser has just been asking about, and that is to try to set the economic context here.

I noted in one of your responses to questions that the Committee asked beforehand about what economic forecasts you projected that you indicated, as you have again today, a slow and moderate growth up of the economy at around 3 percent.

My question is how much can government policy affect that. In other words, if we are saying here, as you are and many others do, that we should be careful about getting into deficit reduction too quickly until we see the economy rising somewhat and therefore probably should put the emphasis at the outset of the Clinton administration on economic growth stimulus, how high can we take economic growth before deficit reduction becomes the priority, with our own action, governmental action?

Dr. RIVLIN. I am really suggesting two priorities, but with the timing made clear. We do want to get the economy back to capacity, but we won't do that, and we won't have continuing growth unless, we make clear that there is a serious plan for bringing the deficit down. That's the only way you get long-term interest rates down. If we don't have an economy in which it is attractive for the private sector to invest, we won't have long run growth and higher productivity. So we have to do all of those things at once, and I don't think there is any magic point at which you switch.

Senator LIEBERMAN. I appreciate that answer, and I think it is a very important one, just to punctuate, that although there is talk about that we have options here—do we make the economy grow, or do we reduce the deficit—you have made what I think is a very strong point, which is that any economic growth program for

America has to include deficit reduction because that reduces long-term interest rates, and that is really what is most important, or one of the things that is most important, to business as it considers when and where and how to invest.

Dr. RIVLIN. I think that's right, and I think there is a further point. You said something about what can the government do. The government has certain levers, but what really matters is the government generating confidence that things are under control and on track. And we won't have a growing economy if our Federal deficit is out of control.

Senator LIEBERMAN. Let me just ask you to speak a little more about what is implied in your answer to the last question, which is that one of the alternatives we have which has been much discussed certainly here on Capitol Hill is to adopt a deficit reduction program at the outset of the Clinton administration, but to have certain parts of it not kick in until somewhat later on—a year later, 18 months later—so that we create the certainty through statute that we are dealing with the deficit even though we don't begin to feel some of that pain until we give the economy a little more time to grow. What do you think of that?

Dr. RIVLIN. I think that's right, and I think you will see a 5-year plan from the Clinton administration that does that, that has very firm deficit reduction, but timed to come in the outyears of the plan.

Senator LIEBERMAN. Let me now ask you a few more questions about how we go at this. And as my colleagues have said, in some sense, there is no mystery to how we got into the problem. We spent more money than we raised, and one of the ways we are going to get out of it is by cutting spending and raising revenues, and hopefully as part of that, getting the economy growing more robustly.

Congressman Panetta the other day stressed, and I thought it was important, that part of maintaining confidence of the public in what we are doing here is to make it clear that we are going to try hard to make the government work, too; that part of the sacrifice is going to be on our side—that we are going to shape things up, cut some spending, etc. As you probably know, this Committee has jurisdiction over the Governmental Reorganization Act which, if revived, would give the President broad powers to reorganize the executive branch subject to a mandatory up or down ratification by Congress.

Do you think it would be helpful to the incoming administration for us to revive the President's authority under it which expired, as I understand it, in 1984?

Dr. RIVLIN. I suspect that it would. Presidents rarely want to have less authority, and if the Congress wanted to give the President that authority, I suspect, although I have no authority of my own to say this, that any President would welcome it.

Senator LIEBERMAN. Would you put that as one of the priorities of steps that we might take to help this process of restoring confidence and reducing the deficit?

Dr. RIVLIN. I think it is certainly one thing that you could do, but I personally think that priority has to be given to the actual policies that will reduce the deficit. None of them will be pleasant;

they will all be difficult. The powers that the government already has to ensure better performance are quite substantial and that you should ensure that we are exercising those.

Senator LIEBERMAN. Thank you.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you.

In answer to pre-hearing questions about cutting the deficit, you say: "Both discretionary and entitlement spending must be curtailed, and additional revenue must be raised." What entitlements do you feel we should look at with a view toward cutting them?

Dr. RIVLIN. Well, I have already mentioned health care, Medicare and Medicaid, but only in the context of general reform of the health system. And clearly, one cannot look at entitlements without looking at Social Security. Now I have said the magic word. And when you have talked about Medicare and Medicaid and Social Security, you have talked about a very large part of the entitlements and a very large part of the budget.

Chairman GLENN. How about new revenues? What about a higher marginal rate on upper-income taxpayers? That has been mentioned.

Dr. RIVLIN. That has been mentioned by the President-elect and is certainly under consideration.

Chairman GLENN. Do you have any figures on hand as to how much we would really gain, though, if we put a huge tax on those making, say, over \$200,000, or some examples, because it has been my impression from things I have read and studies that I've seen that that really doesn't go a very long way. It may be popular to say we are going to tax those people who have money, but if you took all their money it really wouldn't balance the budget. Do you have any figures on that?

Dr. RIVLIN. I don't. I could supply them, Mr. Chairman. Your general impression is correct. We cannot balance the budget by taxing the rich only. But that doesn't mean that a more progressive tax system wouldn't be a good idea.

Chairman GLENN. How about a value-added tax on consumption? Let's get back to our consumption question a while ago.

Dr. RIVLIN. There has certainly been a lot of interest in a value-added tax as a possible solution to the deficit problem. That would be quite a radical move, and it would have to be undertaken with a lot of thought. The Federal Government does not presently have such a tax. It is more difficult to institute a new tax than to raise a tax already on the books. And sales taxation—a value-added tax is basically a sales tax—has been the province of State and local government. So something would have to be worked out with states and localities.

Chairman GLENN. It has been, but if we went to something like that, would you favor going to just a straight sales tax instead of a value-added tax? Basically what a value-added tax is is a bureaucratic sales tax, if you wanted to look at it that way, in which you put a bureaucracy to administer this thing at each step of the added value instead of just putting a tax on the end of it.

Dr. RIVLIN. I don't think so, Mr. Chairman. Now we are in a never-never land. We are talking about if anyone were to suggest such a thing, and I haven't suggested a national sales tax. But if

one were to suggest a national sales tax, then I think a value-added tax is probably better than a retail sales tax. Under a value-added tax it is easier to tax services, and services are the growing part of our economy. It is easier to tax services under a value-added tax without double-counting than it is under a retail sales tax.

Chairman GLENN. Everyone mentions health care and health care reform as being key to any real control of the deficit, and I agree with that. I have been a little leery, though, of just putting a cap on spending that you apparently favor. I think the figures are, if I recall them correctly, that our health care expenditures for the country are going past \$815 or \$820 billion a year, and are now going up close to \$1 trillion in this coming year, if I heard a news report correctly the other day. Out of that, hospitals are about 39 percent; dental and medicines couple together for I think it is 23 percent; doctors are 19 percent.

Now, we look at health care as being basically a service, but yet there are very definite costs in there that are not just service costs, which a doctor's fee could be classified as being. I don't see how you just cap spending when almost 40 percent of your costs are hospitals. Their costs go up. A lot of them are having trouble making it right now. And just to cap spending is a nice thought, but if we do that, do we then start in one segment of our society almost going back to World War II, OPA Administration, where you have to control everything? How do we start in and control one specific part without getting into other parts, where there are other suppliers and so on? If this is so easy to do, it seems to me we could just cap the expense—we won't spend over a certain amount for automobiles or whatever. And that is ridiculous, because they have very definite expenditures. But just because it is a service and a service industry, there are some things within that that cannot be capped. And I think if we think there are going to be major reductions just by taking those other areas that don't have their own costs in turn, that we are just living in a dream world on that. Would you give me your views on that?

Dr. RIVLIN. Oh, I would agree with that. I am not in favor of just capping spending. I don't know that we have a mechanism for doing that. Once you talk about capping spending, whether you are talking about national spending or Federal spending, you have to then take the next step of how are you going to do that.

I believe that what we need for the Nation as a whole is a new way of structuring our health care financing system so that it doesn't give us as many incentives to increase costs and so that we have a mechanism for controlling the costs. Now, exactly how you do that is, as you point out, not simple at all; it is very difficult.

Chairman GLENN. One of the things that is much different in our system here in this country compared to some of the other countries that we have studied and that this Committee has looked into, we had hearings on a study that John Heinz had originally asked for before his untimely death; GAO did the study, and it was on the French, the Japanese and the German systems.

Dr. RIVLIN. I remember that study, Senator.

Chairman GLENN. And we have another study going on now that GAO is getting more information for us and should have their report done by March, they told us last Friday, on the German

system. The Germans are revising their system now, and I think there is a lot in that system that we can get some lessons from.

But the one thing that is very different in this country I think from most other countries is—and this is a rather astounding figure to me, and I think these figures are correct—that about 30 percent of our lifetime health costs occur in the last 4 months of life. Now, that's an enormous expenditure in the last few days of life, and we go to all these very heroic measures here of tubes and medicines and doctors to prolong life for a few days or weeks or months at the very best. And in most other countries, that's one of the major differences in the studies we've looked at so far, in most other countries, the families sort of take over at that point, and people are much more likely to die at home in their own beds than they are in a hospital with a lot of tubes sticking into them.

I just bring that up, and I don't know whether you have looked into that area or not, and I don't know what we do about it.

Dr. RIVLIN. I don't think it is 30 percent of national expenditures; it may be 30 percent of Medicare which is after all focused on the older people. But in any case, we do have a high fraction going into expenditures for people who are very ill, many of whom are in a terminal illness. We have to figure out what to do about that. It is a serious moral question; it isn't just a technical question.

Chairman GLENN. Thank you.

Senator Cohen.

Senator COHEN. Thank you, Mr. Chairman. Dr. Rivlin, when I mentioned the fact that you had written a book advocating that we adopt spending caps and government-set rates, I think your response was that the book was written while you were in the groves of Academe. As Judge Bork might remind all of us, past reflections that are committed to writing cannot be easily retrieved or recanted, at least not without some penalty.

I want to explore with you a little bit about the spending caps that Senator Glenn was talking about. The question is who sets them, and how do they go about setting them. If you set a global spending cap, you might set it too high, in which case you are going to lose any cost containment results that you are seeking. If you set it too low, you will inevitably produce a deterioration in the quality of the health care itself. So the question becomes who sets it, and what factors are taken into account in arriving at those rates. Then, assuming you can come to a total figure, you are going to have a great deal of difficulty—I think you started to get into this—determining how to make it appropriate in terms of geographical allocation and in terms of provider-specific allocations. It is an almost impossible task unless you are going to be very arbitrary.

The very reason I think you oppose the across-the-board caps on entitlement programs is because they are arbitrary, and yet this same logic would apply with equal force to setting global caps and having the government determine specific rates.

I would just pose that to you as an admonition on that issue. You don't have to comment on it.

Dr. RIVLIN. Well, let me just comment that all of this is difficult, but we do have to find a solution to it. I think we can't just say we

are so different we can't do it. The German system does appear to produce quite good medical care in Germany, at much lower cost than ours and with slower cost increases. Now, I am not saying we should adopt the German system, but we've really got to think about what we do.

Senator COHEN. We also have to look not just at the systems, be they Japanese, German or Canadian, but look at what is going into our health care system. We have social problems in this country that are not confronted by the Germans; for example, an AIDS epidemic that has not yet reached the proportions in other countries that it has here. We have a number of other problems associated with our health care system. So before we start looking at other countries as models, I think we have to take that into account.

But there are some solutions. You no doubt are familiar with Alain Enthoven's proposals about managed competition. President-elect Clinton has come out, I think, in favor of managed competition. I think Enthoven has indicated that setting global caps is completely inconsistent with managed competition and would undermine it. So if we are going to have managed competition, we really shouldn't be talking about having global caps.

One essential component of managed competition is to limit tax deduction of health benefits in order to encourage more responsible human behavior and make the tax treatment more equitable. Is that something you would recommend, that we put a tax cap on health care benefits?

Dr. RIVLIN. It is certainly something that ought to be very seriously considered, and a committee of the National Governors Association recently recommended that. Clearly, we do encourage through our tax system the purchase of often overly generous insurance, and we need to think about that.

Senator COHEN. Are you going to recommend cost containment in the field of prescription drugs?

Dr. RIVLIN. I can't really tell you what I am going to recommend to anybody. I am part of a team.

Senator COHEN. Let me phrase it differently. What are your views about cost containment of prescription drugs?

Dr. RIVLIN. I think prescription drugs are a very important part of health care and will have to be part of a national solution to cost containment.

Senator COHEN. There was a financial manager on the program, "Wall Street Week," and he expressed the opinion that he didn't think very much of a stimulus package that cut taxes in the short term but raised them in 2 to 3 years. He didn't think that would provide much of an economic stimulus, and he equated it to asking people to get on a plane after telling them that you are going to empty the gas tank in mid-flight. He doubted very much whether there would be many takers on that plane ride.

What is your response to that analysis?

Dr. RIVLIN. I don't see any reason why a President can't bring up a plan that adjusts taxes in lots of different ways and explain why it is important to do that. For example, there might be reasons for adjusting taxes on a fairness basis, but certainly you can't consider this except in the context of an overall plan—does the whole plan do what we want to see done?

Senator COHEN. One of the things that has to be done that Mr. Panetta talked about during his confirmation hearings is a credible deficit reduction program. We have been speaking and you have been talking about the word "investment," and it brought to mind the old song about "freedom is just another word for nothing left to lose." Investment is just another word for spending. The habits of both Congress and the executive are quite well-known in terms of our appetite for spending in the near term. They are almost guaranteed.

The long-term solution in deficit reduction is always long-term. It's like approaching an oasis and looking to get a cup of water, and when you reach it, suddenly what you have is a handful of dust. Why is deficit reduction always long-term, and the spending side of things always immediate and short-term? When you have that kind of calculus, the markets always react, saying what makes it credible to have long-term reduction when all we see up front is the spending side?

Dr. RIVLIN. I don't think investment is just another word for spending. It is a word for a certain kind of spending that gives you income in the future, and it is a concept which people are familiar with in business and should be in government. We should be doing things now that give us a faster growth in the economy in the future.

Senator COHEN. We spend in education, and that's an investment.

Dr. RIVLIN. It may be, if it is done well.

Senator COHEN. Environment is an investment—no? Vice President Gore is going to be interested to hear your response.

Dr. RIVLIN. I think we can invest in improving the environment, but I wouldn't just have a long list of things that are automatically investment.

Senator COHEN. I don't know what you mean by the difference between spending and investment. I'm unclear on that.

Dr. RIVLIN. Investment is spending now that creates income later. And there are different ways of characterizing what is an investment or not, but the basic concept is doing something now that improves the situation in the future.

Senator COHEN. I won't belabor it, but if you invest now in defense, for example, would that produce security later? Is that an investment, or is that spending?

Dr. RIVLIN. I think it depends. Within the defense category, you certainly have lots of long-term investments that pay out in the future.

Senator COHEN. I'll come back to this question, Mr. Chairman. Thank you.

Chairman GLENN. Senator Levin.

Senator LEVIN. Thank you, Mr. Chairman. Putting aside for the moment the definitional questions of investment and consumption, I'd like to go back to your comment about the near-term action on the deficit and the care that needs to be taken so that we don't worsen our economic situation and make recovery more difficult, but that that plan, that short-term stimulus, has got to be, to use your word, "embedded," in a long-term deficit reduction plan. And I would agree with you, first of all.

The only comment that I would make on that is that we need more than a long-term plan in which the short-term stimulus is embedded.

Dr. RIVLIN. That's right.

Senator LEVIN. We need, I believe—and I'd like your comment on this—to make sure that the steps that we are going to take long-term are not just part of a plan, but are enacted.

Dr. RIVLIN. Right; they have to be part of a law.

Senator LEVIN. They've got to be self-executing in effect, or else there won't be any credibility. This in a way gets to Senator Cohen's point. It is kind of easier to take short-term actions, but to have any credibility long-term, you've got to take actions now which, even though they may be implemented long-term, are self-enacting enough, are in law enough that the painful actions are voted on now and taken now so that it has got some credibility long-term. I wonder if you agree with that.

Dr. RIVLIN. Yes, I agree with that very strongly, and that is what I meant to say.

Senator LEVIN. I don't know that you had a chance this morning to comment on OIRA, specifically, the regulatory review issue. I may have missed the question and answer, and if I have, forgive me.

As you know, a number of us have been interested in this process of regulatory review. The Competitiveness Council of Vice President Quayle has been a very controversial item because it basically has operated in the dark, not because it exists per se, since many of us who want accountability believe there should be regulatory review in the White House, even beyond OMB review, perhaps, even beyond OIRA review, providing—and this is the key—providing it is done in a way in which people know that regulations are being reviewed at that level, by whom, and when, so that they can comment on the regulations to the decisionmakers, the people who will affect their lives.

This is sort of an in-between position. It is not a position against regulatory review of agencies' proposed regulations. It favors it. But it says it only favors it on those conditions where people will have a shot at the decisionmakers to impact their decision and to know, therefore, when is a proposed regulation being forwarded to the White House or to OIRA so that the people who are going to be making the decisions can be lobbied or otherwise people can have an impact on that decision.

Now, have you given much thought to that regulatory review issue, and what is your thinking on it?

Dr. RIVLIN. I think regulatory review is something we will be focusing on very heavily as we consider how best to do it. Clearly, the Competitiveness Council got a very bad name. Whatever is done in the Clinton administration, it won't be that, and it certainly won't be called that. But regulatory review is necessary. It should certainly be fair; it should certainly be expeditious—OMB shouldn't hold up review for a long time—and it needs to be an open process that everybody understands.

Senator LEVIN. I'll never forget when the head of the Competitiveness Council made the statement, I believe in a letter to us, or here perhaps, that everybody was invited in to the Competitiveness

Council to make a presentation. That was just simply not true. It was just wrong. Everyone wasn't invited in. Certain people know that the Competitiveness Council was reviewing a regulation at a particular moment, a certain favored few, or certain people with "ins" with the administration, but it was not a publicly-known fact so that everybody who had an interest in the regulation could have an impact on that decisionmaker. That is what I do hope you will focus on, and your assurance here that it will be an open process is satisfactory to me. The specifics of that have to be worked out either in Executive order or by legislation. A number of us have been involved in this issue to make sure that it is open. Our Chairman, Senator Lieberman, Senator Cohen and others have been very much interested in this issue of regulatory review and the openness that is required if we are going to have an accountable government.

One quick question on the combined budget. I gather you have been a supporter of a combined budget so that the Social Security surplus would be counted. The current law requires that it be separated out, and I would like your view on the wisdom of it, but in any event, your commitment, obviously, to comply with the requirements of law that we have our deficit figures set forth for us in the budget presentation free and clear from any Social Security or other trust fund surpluses.

Dr. RIVLIN. I think a budget ought to be a document which can answer lots of different questions. In saying that I saw advantages in the unified budget, I was only saying what budgeters always say—everything ought to be there so you can see it. And that obviously includes Social Security. To say that Social Security is off-budget is not to say that it is unimportant or that it doesn't affect the economy. Clearly, you want it there in the document so that you can see it.

Now, it is certainly true that the Social Security surplus has been "borrowed" by the rest of the government and is masking to some extent the true difficulty that we are in. That also ought to be clear. Unquestionably, we will comply with the law in showing Social Security and the rest of the budget separately, but no one would want to ignore it.

Senator LEVIN. Thank you. My time is up.

Thank you, Mr. Chairman.

Chairman GLENN. Senator Cochran.

Senator COCHRAN. Thank you, Mr. Chairman.

Dr. Rivlin, in looking through the papers that were made available to the Members of the Committee, I don't find a clear definition of exactly what your duties will be as deputy director. I know this may change from administration to administration, given differences in style and operational understandings between a director and a deputy director. But could you tell us what your understanding is of exactly what your duties will be as deputy director?

Dr. RIVLIN. My understanding is very simple. I am there to help the director do what OMB is supposed to do and to act for the director in his absence. And I think Leon Panetta and I will have to work out the exact distribution of responsibilities, as any management team does. We will work it out not only with each other, but with the deputy director for management and the rest of the man-

agement team. But my job is easily described. I am the general deputy, and I am there to help.

Senator COCHRAN. Given that wide latitude in what you might be called upon to do, do you foresee having a role to play in the review of regulations that are issued with other agencies? Will that be something that will come under your immediate supervision?

Dr. RIVLIN. I believe there is a role for OMB in the review of regulations, and therefore for the director and the deputy director.

Senator COCHRAN. I know in some departments the deputy director is given the responsibility for the day-to-day operation of the agency. The Secretary or the director of the agency is given more freedom, to go and make speeches or do whatever the Secretary or the director might be required to do, but not be so into the details of close supervision of the day-to-day operation of the agency or department.

Do you foresee that that could be your responsibility, or have you had any conversations with either Leon Panetta or the President-elect about what they expect of you?

Dr. RIVLIN. Well, Leon Panetta and I have talked about it. I don't think either of us is particularly taken by this inside-outside model. Those of you who know Leon Panetta know that he is not going to be excluded from the details of the budget. He is an expert on the details of the budget, so that it is not a realistic expectation that he would leave those details to someone else. And those of you who know me know that I am probably not going to hide in a corner. We will divide the duties. There is so much work to be done that we will just have to divide it as it seems useful to get the job done.

Senator COCHRAN. The previous directors have not had, in my view, a very high profile in the operation of the Office of Management and Budget. We all might be hard-pressed to name previous deputy directors of OMB, while we would probably be able to easily name the directors of OMB. Given the fact that you have had very high-profile positions in the past as head of the Congressional Budget Office and in other assignments and jobs you have undertaken, I would be surprised if you were not a very high-profile deputy director of OMB. I can't imagine your going to the agency without having some clue as to what your normal, day-to-day expectations would be in the view of those who will be working with you, like the director or the President-elect or the Vice President.

You said you had had some conversations with President-elect Clinton about restructuring government. I think that was in response to a question that Senator Roth asked you in the initial questions that he asked about a number of discussions with President-elect Clinton. Was the Office of Management and Budget, as an agency, the subject of any discussions with the President-elect about what its role ought to be or how it could be restructured, and what possibly your role could be in that new agency?

Dr. RIVLIN. No. We have not been very specific about that. And my answer to Senator Roth was in a different context. It was in the context of restructuring—what I said in my book about restructuring the roles of the Federal versus State Government—that we had talked about. It was an abstract intellectual conversation.

Senator COCHRAN. The budget process in my view, and I think this is a widely shared view, has lost a lot of its credibility since you were head of the Congressional Budget Office. I think the credibility of the process has been eroded to a dangerously low level and the confidence of not only members of Congress and executive branch officials as well, but the American public, has also been eroded because of the lack of credibility of the process.

You made a comment in your statement that I want to applaud, and that is, to bring truth to budgeting, to make sure that the budget process is candid, straight-forward, comprehensible, and understandable. You stated that you want the numbers to mean what they appear to be saying, and that you somehow want to restore credibility to the process.

So I challenge you to have the courage to change the direction of the budget process and to make whatever changes need to be made in this office to help ensure that at least on the part of the executive branch, the process is straight-forward, and not full of games and gimmicks. The Congress is equally guilty, I think, with the executive branch in distorting, misleading, misrepresenting, covering up, using "smoke and mirrors"—a wornout phrase. I heard somebody say one time when they looked at a budget resolution, "This is so full of smoke, I can't even see the mirrors."

The fact is, it is a joke; the process is a joke. And I am not casting aspersions on anybody who has the responsibility to serve as chairman of the House or Senate committees or is in any position on those positions. Those are tough jobs. Amendments are offered that also distort the process, as if by amending the budget resolution we are going to change the funding levels for specific programs that aren't even defined in the budget resolution.

The whole point is that the process is in need of change, improvement, and candor, and I applaud you for the determination which you obviously are willing to bring to helping to correct that very serious problem.

Dr. RIVLIN. Thank you.

Senator COCHRAN. Thank you, Mr. Chairman.

Chairman GLENN. Senator Sasser.

Senator SASSER. Thank you, Mr. Chairman.

Dr. Rivlin, we discussed earlier your views on the question of controlling health care costs. And clearly, the buzzword around here now, of course, is controlling entitlements. And that is something that really, we must do. Interestingly enough, many of those who are the most vociferous in their demand that entitlements be controlled are the same ones who were the most vociferous a few years ago in reducing the revenue base of the government and in dramatically increasing the military spending during the decade of the eighties.

Now, when we talk about controlling entitlements, of course, we know that 85 percent of the growth in entitlements is in medical costs, both Medicare and Medicaid, and you have laid out, I think, a good general program for how that ought to be dealt with.

There are other areas of discretionary spending, in my judgment, that need to be addressed, and I think some significant savings can be made there. I made the point the other day in this Committee, and I think it is worth making again with you today, that the Bush

administration prior to the collapse of the Soviet Union presented a spending program for the military in the amount of \$1.466 trillion for the period from fiscal year 1993 through fiscal year 1998. Following the collapse of the Soviet Union, they revised that military spending trend, reducing it \$43 billion over the 5 years, saying they wanted to continue to spend \$1.423 trillion over the 5 years for defense.

The President-elect's Secretary of Defense-designate said, well, perhaps that's too much. So he cut another \$48 billion off the Bush spending program, bringing it down to \$1.375 trillion—no—actually, President-elect Clinton said that was too much, and so he cut it another \$48 billion to bring it down to \$1.375 trillion.

My point is this. Many of us thought that the reason for the very substantial military spending and the reason for this very large military establishment was to combat the Soviet Union. That was the reason given for the rearmament that occurred after the Second World War, after demobilization then; the reason given for rearmament in the Korean War; the reason given for military spending increases in the sixties; the reason given for the very extravagant military spending increases in the 1980's. Yet we find that following the collapse of the Soviet Union, even President Clinton himself is saying that only a 7 percent reduction in military spending over the next 5 years will occur in his plan or program.

My point is simply this. Why must we continue to average spending in 1993 dollars, \$275 billion a year over the next 5 years for the military? Why can't we start effecting some savings, or savings of greater magnitude, in discretionary spending there. While we are addressing the problems of entitlements, let's get some discretionary spending savings out of defense.

Many leading thinkers, including former Secretary of Defense Robert McNamara, are saying that we can have an adequate defense, both quantitatively and qualitatively, with spending in the range of \$150 billion to \$200 billion in 1993 dollars.

What is your reaction to that? Can we anticipate out of a Panetta-Rivlin Office of Management and Budget more military savings?

Dr. RIVLIN. Well, clearly, the question is what the Clinton administration as whole's position will be, including the Secretary of Defense-designate Mr. Aspin, who has had lots of plans at various times for reducing military spending.

The only thing that can be said with certainty right now is that the defense budget is headed on a downward path. All of the discussion is about how rapidly it is prudent to reduce the defense budget.

The cold war is over, and much of our defense structure was aimed toward the Soviets, but the world is still a very dangerous place and a very uncertain place. We have to think clearly about what dangers might need to be met. In the campaign, as you noted, President-elect Clinton made some proposals for cutting below the Bush path in defense. Exactly where the administration will come out, or where the Congress will come out, is a matter, as you know, of great debate.

Senator SASSER. Well, just let me say this—and my time has expired—I am not trying to pin you down to figures here today, be-

cause I know you can't do that, and those decisions have not been made. But I did want to impress upon you a sense of some of us here—and I don't speak for all of us—but the sense of at least some here in the Senate, and my view as Chairman of the Senate Budget Committee, that we simply must look to make more savings in discretionary spending out of the military aspect of spending. And I was frankly perhaps a little disappointed in the campaign that the man that I supported and voted for was supporting weapons systems like the B2 bomber and other things like that, and I am hopeful that as we get into it, perhaps the new administration can rethink some of those views.

Thank you.

Dr. RIVLIN. Thank you.

Chairman GLENN. Senator Lieberman.

Senator LIEBERMAN. Thank you, Mr. Chairman.

Dr. Rivlin, if I may just pick up from the question and colloquy of my friend from Tennessee and say I appreciate your answer to his last question. It builds on the answer that Congressman Panetta gave us the other day to a similar question, which is that the first goal here should be for all of us to determine the missions of the National security structure, the U.S. military, in this post-cold war world and then to determine what we need to fill it.

If we reach out and say, well, we can cut another \$100 billion or \$300 billion or whatever from the budget, just playing a numbers game, and not basing it on national security evaluation, then we are going to be in trouble.

I for one feel strongly, just looking back at the years that my friend from Tennessee cited, the different periods—post-cold war, Korea, the sixties—that too often we have brought down our defense structure too rapidly, with too much optimism about the international future, and then we paid a higher price, tooling up to meet very real security threats that existed. Even now, though the cold war is over, we've got Russia still heavily armed, with an unfortunately stable government. We can't predict that Mr. Yeltsin or a friendly government will be there for long. We have troubles in Yugoslavia and Somalia, potential troubles in Haiti, and today we may be about to go back into battle in Iraq.

So I think any precipitous rush to just slash that defense budget really ought to be based on an evaluation of national security threats, and I appreciate your answer and Congressman Panetta's to that question.

With what is left of my time, I will ask you to go back to the more general question of the "reinvention of government," which has become a favorite phrase on Capitol Hill. Congressman Panetta, I think, pointed out correctly that right now this phrase embodies more of a spirit than specific programs, and I wonder if you have any specific ideas at this time about what we might do to meet this desire to make our government work better, public desire, and in that sense to reinvent government.

Dr. RIVLIN. Well, "reinventing government" was a very good phrase of my friend, David Osborn and his coauthor. If I had thought of that title for my book, I'd have sold more copies.

A lot of the recent thought and effort at all levels of government to restructure moves in the same direction that many businesses

are moving—answering questions like what does this organization do best, how can we find out what our customers or clients really want, how can we empower the people who are actually giving the service to take charge of delivering it well? All of those things are part of an effort to improve management, public and private, at all levels.

Senator LIEBERMAN. I think that's a good answer, and I look forward to those very questions that you raise, and it is a good reference point as well to what the private sector is doing now, and I hope that you and Congressman Panetta will stick with that.

Again drawing on your writings, in an article that you wrote in 1990 in *Governing* magazine, you suggested the possibility of developing a common tax, and that is a national tax, perhaps value-added, or I think you mentioned energy, that would be imposed by the Federal Government, as I recall, but shared with the States, on the premise that a lot of governmental initiatives are best carried out at the State level. In fact, that's one of the arguments of the *Reinventing Government* book, that we ought to try to send more back to the States.

How do you feel about the idea, particularly as we look forward to the possibility of a value-added tax, of this notion of a common tax, a shared tax with the States?

Dr. RIVLIN. Well, I floated the idea of a "common shared tax," as I called it in the book, because I do think it is something very much worth considering. One of the problems for States in raising adequate revenue is that they compete with each other for businesses and for residents and for sales, and they tend to try to keep their taxes a little lower than their neighbors'. This competition means that they may end up with inadequate services.

I think as our economy becomes more and more global and mobile, within the country and across borders, jurisdictions are going to have to think more jointly about taxation. This may go beyond anything the Clinton administration, but I think as you look down the road, States will have to think together about their tax levels, and I also believe that the Federal Government will have to work with the States and that a common shared tax is a possibility.

Senator LIEBERMAN. Thanks. One final question. It is my good fortune in this session of Congress to assume the chairmanship of a Subcommittee of this Committee, the Subcommittee on Government Information and Regulation, and in that capacity I want to ask you an open-ended question. That is, as I prepare for this opportunity and these responsibilities, do you believe that the government now collects the information that it needs to manage programs and operations effectively, and if not, do you have any specific thoughts about how we can help you in your new capacity do that better?

Dr. RIVLIN. No, I don't think we have adequate information. I don't have a very specific answer, but I would certainly be delighted to cooperate with your subcommittee in thinking this through.

I don't think there can be very general answers. Government agencies do very different things, and they need different kinds of information, and imposing some central system of information risks doing more harm than good.

Senator LIEBERMAN. I'm going to take you up on that offer; I will look forward to talking with you more about that.

Thank you.

Chairman GLENN. Senator Dorgan.

Senator DORGAN. Thank you, Mr. Chairman.

When I was in the House of Representatives, I chaired a Task Force on Government Waste, and we published a booklet with a set of recommendations that Congressman Panetta is well familiar with. It responds to a lot of the things that others already know about. I heard the Chairman the other day talk about excess inventory in the Department of Defense. That is not a new mystery—

Chairman GLENN. Excess has gone from \$10 billion to \$40 billion in the last 10 years according to GAO.

Senator DORGAN. And they routinely purchase 10 percent more than they need in inventory.

Senator LEVIN. By the way, if I could interrupt, we cut \$3 billion last year from their request for inventory purchases, and I don't think they have even missed it. We saved \$3 billion in reducing their request—that's not "million," but \$3 billion.

Senator DORGAN. And they now have 1.2 million bottles of nasal spray in inventory, which would take care of clogged noses for a good many decades, I suspect.

But my point is I could go through chapter and verse on government waste in a range of agencies including the Congress, but the question is: How are we really going to get at that? Are you interested in this subject? On the subject of overhead or indirect spending, you are recommending and the President is recommending a 3 percent cut. My feeling is we ought to talk 5 or 10 percent. I think you could say to Congress and every agency of the Federal Government that our goal is to cut 10 percent of your indirect costs and not really injure the function of government. Now, Mr. Panetta responded by saying, well, if you impose that at the top, that would be kind of arbitrary. I am not suggesting you tell the Secretary of HHS where he has to make the cut; he just has to meet the target of 10 percent.

Dr. RIVLIN. She.

Senator DORGAN. She—I'm sorry. How do you think that we can address this issue of waste? Can we do it more effectively? Will we do it more effectively?

Dr. RIVLIN. I think we can do it more effectively. I know that every incoming administration says that, and the proof will be in our actual ability to do it. But I tend to agree with my new boss that we must look very carefully, agency by agency, because some agencies clearly could cut a lot, and others may even be understaffed to do what they are doing. Maybe some of the reasons we think things don't work is that there are not enough people doing them.

Senator DORGAN. But it's safe to say there won't be any volunteer agencies.

Dr. RIVLIN. No.

Senator DORGAN. I mean, as opposed to American business. When they find themselves in trouble, they are going to cut travel and printing; overhead costs are the first to be cut. And we don't

budget that way. We ask what did you get last year? And we add a little bit, and that's what you get next year.

It seems to me that given the deficit problems we have, at least in this area, we ought to say that we are going to make a significant cut, especially in indirect or overhead costs.

Dr. RIVLIN. Well, I think we should do that, but I don't think it is quite fair to say we budget incrementally. You know, if you look at discretionary spending, domestic discretionary spending, that has been quite tight for quite a long time.

Senator DORGAN. Well, I accept your point in some areas; in some areas, that is not the case.

I want to go back to a point you made earlier about the issue of deficits. You said the reason we deal with the deficit is to deal with long-term interest rates, because we won't get economic growth if we don't have lower long-term interest rates.

We had someone from Japan, the chief economist of the Deutschebank, I believe, testify before a committee of Congress last year. The chief economist of the Deutschebank in Japan said that in Japan, they invest \$440 billion a year more than we do in the U.S. in new plant and equipment. He was predicting that Japan will soon become, given his projections, the world's leading economic power. It is already the world's leading manufacturing power, according to him.

Why do they invest more in plant and equipment? Because they have the capability of investing more. Therefore, they have new plant and equipment, or newer plant and equipment. And when you compete with newer plant and equipment, you make a product at a lower price, and therefore you win the competition. That is the extension of that. That investment comes from savings. That savings that is available there and not available here relates, at least in some part, to the deficit.

How does that relate to your discussion earlier that the problem in getting the deficit under control, or the reason we need to get the deficit under control, is to ratchet down long-term interest rates?

Dr. RIVLIN. Well, it is all part of the same thing, I think. The Japanese do invest very heavily, and they do that because out of a given income, they consume less and save more. And there is a difference between consumption and investment that is understandable.

The reason why I think it is so important to get the Federal deficit down is that the Federal Government is part of our problem of low saving in this country. We have low saving in the private sector, but we have a government which is aggressively dis-saving. That's what a deficit is. So if we get the deficit down, we will have a higher level of national saving which can flow into investment in the private sector.

Senator DORGAN. And presumably, a higher level of confidence that the American people would have in the future because they think the future will look somewhat brighter with a lower deficit.

Dr. RIVLIN. Well, that's right. And if we have more investment and higher productivity growth, we will have a higher standard of living in the future.

Senator DORGAN. I discussed with you yesterday when we visited, Dr. Rivlin, my interest—and I discussed this at some length with Leon Panetta, and I won't discuss it at length today—but my interest in the subject of taxes paid to our government from foreign corporations doing business here. I very much want to see us address that in an aggressive way—not to suggest that those entities doing business in this country should be mistreated or overtaxed, but simply to suggest that when a corporation decides to do business in our country, particularly a foreign corporation, that they subscribe to the same rules and regulations and tax laws as does a domestic corporation and pay essentially the same tax burden on the same profits. That is not true today.

In my judgment, Bill Clinton is the only one who is right on this issue, or virtually the only one. The economists, the IRS, and all of the others who have given short shrift to the notion that there is a substantial amount of money there, I think need to relink at this issue. There is a growing body of evidence, I think, that there is \$10, \$12 or \$15 billion a year available in new revenue if we simply ask foreign corporations to pay taxes, reasonable taxes, on profits they earn when they do business in this country.

I would very much urge you to look at that body of evidence, and I hope to have a conversation with you in the weeks ahead about that.

Dr. RIVLIN. Taxes, of course, come under Secretary-designate Bentsen's jurisdiction, but I am sure that the President-elect will welcome this support and will want to look into it again.

Senator DORGAN. Thank you.

Thank you, Mr. Chairman.

Chairman GLENN. Good. Thank you, Senator Dorgan.

It had been my intention to run to about 12:30, then break and come back at 2 o'clock. I have just canvassed people here, and I think we don't have that many questions, and I think we can probably wind this up if we stay here another 45 minutes to an hour. I hope that would meet with your approval.

Do you want to take a 5-minute stretch before we continue for about another hour, and then we'll end it for the day?

Dr. RIVLIN. Whatever you like, Mr. Chairman. I'm happy to proceed.

Chairman GLENN. Fine. We'll go ahead.

One of the proposals President-elect Clinton has made has been to reduce Federal employment by 100,000 and cut administrative expenses by 3 percent a year. I know there is plenty of waste in government. I'm not sure we can just arbitrarily say we'll cut 100,000 because there is 100,000 worth of inefficiency in government. We may well wind up in some agencies, if we just tried to put that in automatically, we may hollow out some of these agencies that are doing a fair job and make it less efficient instead of more.

Do you have any thoughts on that? I think we have to be very careful, and it is going to be administered by your agency.

Dr. RIVLIN. I do think we have to look very carefully agency by agency; I agree.

Chairman GLENN. Do you support the line item veto, or what kind of line item veto? There are several different permutations of it.

Dr. RIVLIN. Well, that's really the question. There is obviously a big discussion going on about this, as there has been for some time, between the Executive and the Congress. The in-between positions, that have been known as expedited or enhanced rescission authority, and they are different, do seem to me to offer a middle ground that would allow the President to specify what things he does not like and put the burden on the Congress to stand up and be counted on restoring those.

Chairman GLENN. Would your proposal be to send it back to the Congress, then, for a specific, item-by-item vote?

Dr. RIVLIN. Yes, that's certainly one proposal.

Chairman GLENN. OK. In your answers to our pre-hearing questions, you say that the enforcement mechanisms of the Budget Enforcement Act have been "highly successful," were your words, I believe. You go on to say that similar enforcement mechanisms will likely need to be continued in the next budget process reform.

I am interested in what reform you might have in mind, and I say this with this kind of background. I think through the years here, we have become so accustomed to gimmicks and automatic this and that and something else, whether it is Gramm-Rudman-Hollings, whether it is the 1990 budget agreement, and we go to all these things like automatic sequesters and pay-gos and deferrals and rescissions, constitutional balanced budget, line item veto—all of these are supposed to be our saviors somehow. We are trying to put ourselves on autopilot so that we don't get blamed for whatever it was, and the automatic system is somehow going to do great things for us—and it has not. We have just gotten ourselves deeper and deeper into the quagmire.

Do you favor all those I mentioned and any more you may think of that I left off my list? Do you favor keeping all of those in place now—the 1990 budget agreement, Gramm-Rudman-Hollings, the sequester, the pay-go, and all of these things—or, do you have some new proposal that is going to replace those with something that really will work?

Dr. RIVLIN. Certainly, part of the President's economic plan will have to be a recommendation on budget process and enforcement of the plan when enacted, if enacted.

I share the spirit of your question, which is it would be wonderful if we could do away with all of these enforcement mechanisms and just have the President say to the Congress, "Here is the problem, and here is what I recommend doing about it, and you decide what you are willing to do." Then we could all together come up with a budget which reduces the deficit back to zero—let's go for broke—in a certain number of years.

I don't think that is very realistic. There are enormous pressures. Even if you vote for a plan, there are enormous pressures on you to spend more, tax less, and enact new entitlement programs. So I do think some rules are in order.

The pay-as-you-go concept, the notion that you can't have a new entitlement without saying where the money is going to come from

and how you are going to pay for it, seems to me a good thing, a good way of thinking about budget decisions.

Caps also seem to me somewhat less good things, but probably necessary in the present context. If there were no cap to enforce the agreement about discretionary spending, there would be more temptation to abrogate the agreement.

I for one think that the BEA has worked reasonably well as an enforcement mechanism—better than the general public or even the Congress perhaps perceives. You have stuck to the caps and to the pay-go rules. It is true that the deficit has increased, but it has increased largely because the economy deteriorated, and if you hadn't kept to the rules, things would be worse.

I think the Congress can take a little credit for having made some decisions and played by the rules, and I think we will need more rules in the future.

Chairman GLENN. The acid test will be when the budget comes up here, of course, because as you know, for the last couple of administrations here, the budgets have been sort of laughed at when they arrived up here—the most unbalanced budgets in all of American history—and then within 2 months, we were given the devil for not cutting more out of what was just submitted to us, which is a crazy way to do business. So I hope this budget really gets into this thing and really gets some teeth in it this time, because I think we have a golden opportunity. The people of the country have expressed themselves in this direction, and if we come up with budgeting as usual here, and we are just going to depend on some of the gimmicks we have here, then I think we have missed a golden opportunity. I hope we don't do that.

Dr. RIVLIN. I agree.

Chairman GLENN. Do you think there is any better way to restructure the actual budget process itself? We have our own problems here on the Hill, as you know. We go through an authorization process, subcommittee, full committee, the same things being voted on; get out on the floor. We do the same thing in the appropriations process. Then we have the budgeting process, which is supposed to give us general goals, and now has gotten so burdened down with specifics when we get it out on the floor, that once again it has become another way for people to put the proposals in and make their press releases back home more than anything else, so wind up just in a quagmire. It is legislative WPA around here. And over on the executive side of things, the executive branch of government, it is pretty much the same thing.

Are there any new proposals you have from your experience here with the Congress, as well as in the executive branch, that could give us a new handle on this? Is there a new approach to this, or is it just a matter of getting together and going through the budget once again, line item by line item, as we go through it, once we have it delivered to us?

Dr. RIVLIN. The process needs to be simplified—

Chairman GLENN. How would you do it? What simplification would you propose?

Dr. RIVLIN. I'm on record a long time ago as having favored a couple of reforms in the direction of simplifying the budget process. One reform is converting to a biennial budget. That doesn't make

it any easier, but at least you do it less often. One of the real problems with the budget is that it ties up too many people's time, presenting budgets, defending budgets, both in the executive branch and in the Congress. If you could do it every other year instead of every year, you'd be better off.

Chairman GLENN. And give us more time to do oversight.

Dr. RIVLIN. You would have more time for oversight. I have been saying this for 20 years, and I haven't noticed a lot of enthusiasm among appropriators for a biennial budget, but I don't mind saying it again.

I think the committee structure also is much in need of another look. You are absolutely right that there are too many layers of decisionmaking—authorizing, appropriating, budgeting—and many decisions are revisited all too often.

I am the author, again, many years ago, of a restructuring proposal which would abolish the distinction between appropriating and authorizing. That may be a luxury we can no longer afford. You could rethink the whole thing, have a set of what you might call program committees, one for each area of the government, which would exercise the functions that are now exercised by both authorizing and appropriating committees. That would get rid of one layer. But again, it is not terribly popular among committee chairmen.

Chairman GLENN. I can understand that.

Senator Cohen.

Senator COHEN. Mr. Chairman, I agree with that recommendation. I think we should abolish the distinction between the appropriations committees and the authorizing committees, and I would be very willing to give up my own "seniority" on any of the authorizing committees on which I serve to achieve that.

I am sorry the Chairman of the Budget Committee is not here right now, because I want to respond quickly to some of his comments. I believe some of his staff members may be here, so he would at least be on notice.

He pointed to a number of ironies in terms of some of us who have been concerned about the growth of entitlement programs and yet have been unwilling to do anything in the field of defense. I think that is an overly-generalized statement, but nonetheless there are a number of ironies involved. Those who have called for the largest reductions in defense spending and the most rapid reductions have also been the first to go on record as calling for military action in distant parts of the globe, even over the recommendations of restraint suggested by the Chairman of the Joint Chiefs of Staff.

There is also, I think, going on in this country a great historical revisionism, that somehow the collapse of the Soviet Union was inevitable, and that the United States was engaged in this extravagant waste of money during the eighties. If there was any extravagant spending for defense during the eighties, it was to compensate for the extravagant slashing during the seventies. I would dare say that we would not have an INF Treaty or Start I or Start II or any of the important treaties that we have today in the absence of the kind of commitment that was made during the early part of the eighties into the nineties.

That is a personal view which we can debate at a later time, but it is one that I feel very strongly about, that you should not listen to voices that call for radical and immediate reductions in the defense budget without taking into account the state of world affairs or what it would do to the people who are currently employed in those industries.

Dr. Rivlin, I have always felt that confirmation hearings were the equivalent of summer lightning. You are required to display flashes of illumination but not release any thunder. I think you have succeeded admirably today. You have come close in one or two respects in producing light, but no noise. Let me ask you a few more questions so we can find out whether there is any thunder involved here.

You mentioned entitlement programs like Medicare, Medicaid, and Social Security. What did you mean, "We have to talk about Social Security?" Are you talking about means-testing Social Security?

Dr. RIVLIN. I only said that all entitlement programs including Social Security have to be part of the discussion about what you do about the budget deficit. I am personally not an advocate of means-testing Social Security. I think there is a distinction between social insurance, where everyone pays and everyone receives, and means-tested programs, like AFDC and Medicaid.

Senator COHEN. We started to talk a little bit about the distinction between investment versus current consumption. We could spend a day trying to go through which programs you think would qualify as current consumption versus that of investment, and I suspect we would not agree on all of them. I think the real important test is not how we classify them, but what kind of legal interpretation, or what kind of legal significance is given to the word "investment."

For example, Leon Panetta during the course of his hearings testified about the distinction between entitlements and discretionary spending. With entitlements, there is a notion that we have no control over them, that they are automatic and therefore outside the realm of congressional control, which of course is not true, but they do enjoy different status. I think the real danger when we start drawing the distinction between current consumption and investment is that we will attach a legal significance to investment and you will see the same trend that we have seen in entitlements. By moving away from discretionary spending and classifying it as an entitlement program, we tend to avoid the annual requests for reductions in those programs by saying they are an entitlement. There is a danger in trying to draw this distinction on investment, which I still think is another form of spending and no more than that. If you try to attach a legal significance to that term, I think you will see an effort made to shift things away from current consumption in terms of their classification into investment, and so we can say, this is an investment and this is where we are going to increase the spending.

Dr. RIVLIN. I haven't suggested a legal distinction, and indeed, if you are suggesting a capital budget—if you are reacting to suggestions for a capital budget—I believe that it is useful to have lots of information about different kinds of programs and to look explicit-

ly at what kinds of government activities can be said to be investment under different definitions. I would not favor having a separately-treated capital budget, though again, I'm not speaking for the Clinton administration.

Senator COHEN. Do you believe that local economic development ought to be left to State and local governments?

Dr. RIVLIN. I think that States have some advantages in being the locus for economic development, but one can also argue for a Federal role as well.

Senator COHEN. I think you recommend, in fact, in *Reviving the American Dream*, that local economic development be left to the States and local communities.

Dr. RIVLIN. I did. That's not a universally-accepted recommendation.

Senator COHEN. No, but it is your recommendation.

Dr. RIVLIN. It was my recommendation in the book.

Senator COHEN. You say "was"; do you hold the same view today as you did when you wrote the book?

Dr. RIVLIN. I was talking about a very particular problem, and I was making a general recommendation that we sort out the roles of Federal and State Government more explicitly and offering illustrations of how you might do that. That's all I was doing in the book.

Senator COHEN. There are some people who believe that the SBA, the Economic Development Administration, and Farmers Home Administration really do not contribute to any net economic growth; that the programs that are involved in subsidizing various businesses or enterprises or endeavors at the local level are going to create winners and losers within that community itself, and therefore we ought not to make those choices at the Federal level.

Is that something that you are recommending when you say that we ought to leave those choices—

Dr. RIVLIN. No; I don't want to take a position on those particular programs.

Senator COHEN. Are there any ones you want to specify?

Dr. RIVLIN. No.

Senator COHEN. No thunder?

Dr. RIVLIN. No thunder.

Senator COHEN. OK. My time is up, Mr. Chairman.

Chairman GLENN. Thank you.

Senator Cochran.

Senator COCHRAN. Thank you, Mr. Chairman.

Dr. Rivlin, when you were at CBO, one of the areas of jurisdictional responsibility that was clearly under your purview was trying to determine the cost, the impact. Of budget amendments to appropriations bills or other legislation that would require an outlay of resources by the Federal Government. OMB has that responsibility in terms of making recommendations to the President as to the cost of this bill or this amendment or this program.

Often, there are disagreements between CBO and OMB about what the cost of a particular change in the Tax Code will be and the like. What plan or ideas do you have about how that can be made more uniform so that differences between the two agencies will be less, rather than more, in the years ahead?

Dr. RIVLIN. The general answer to that is good communication. It is very difficult to estimate the cost of a program that does not yet exist. It requires some assumptions about what is going to happen and how the program is going to operate. It certainly is understandable when two sets of analysts make different assumptions and come to different conclusions.

It is helpful when the analysts can communicate, and in fact there has been a good deal of communication between the working level at CBO and OMB. Many differences are ironed out before they surface. But I think the main thing is not that the estimates always be uniform, but that everybody understand the basis on which they were made. The assumptions must be clear so there can be a reasonable discussion about who is likely to be right.

I thought this at the CBO, and I think I will still think it at OMB—I think it is very useful to have two sets of analysts looking at this. The CBO has made the administration more careful over the years, Democrats and Republicans, about their cost estimates, because they knew somebody else was going to be looking at them.

Senator COCHRAN. In looking at the size of the debt and the annual deficit right now, it is clear to all of us that we are going to have to take into account what the impact of all of that will be on the economy and the economic well-being of the country in the years ahead. One thing that was said in the campaign that I remember is that the President-elect was going to cut in half the deficit in 4 years. The promise was to cut the deficit in half in 4 years. President-elect Clinton said he would do that. Now that sounds good, but I wonder if you don't agree with me that it is not a promise to cut the debt or reduce the debt. It is simply a promise to reduce by one-half the annual operating deficits of the Federal Government. Is that your understanding of what the commitment is?

Dr. RIVLIN. Certainly, what was to be cut in half was the deficit, not the debt. The debt is still rising. Now, exactly what he meant by cutting in half, from when to when, is of some discussion, but in any case, the important point is that the deficit come down and that it not come down so rapidly that it risks the recovery.

Senator COCHRAN. Well, if we assume that he proposes to cut the deficit for each annual year that he is in office in half from what it would have been had there been no cuts made in any programs, I assume that we would be seeing cuts of in the range of about \$150 billion a year, given the \$300 billion annual deficit this year—

Dr. RIVLIN. Not a year.

Senator COCHRAN. Is that your understanding?

Dr. RIVLIN. No. I think the statement referred to cutting the deficit in half by a certain date, not cutting it in half every year. That is a much too ambitious target.

Senator COCHRAN. So cutting the budget of each annual year of the 4-year term in half would be more than you think would be appropriate, given the economic conditions that we have now?

Dr. RIVLIN. If we did that, we would approach zero quite rapidly, and that might be desirable, but I think not in 4 years. Given the extraordinary size of the deficit at the moment, I don't think any economist would advise going that rapidly, lest we throw the economy back into recession.

Senator COCHRAN. In your view, what would be the appropriate reductions that we should make in the deficit over the next 4 years?

Dr. RIVLIN. I don't have an exact answer to that. It is very much a judgment question of what would be too rapid a path from a macroeconomic point of view; what can be assumed about monetary policy, which is key to the success of the deficit reduction strategy, and what the priorities of the administration and the Congress are with respect to new spending to make the economy grow over a longer period. The more you spend for investment in longer-term growth, the more cutting in other programs or revenue increase you have to do to get to any particular target. So all of that is a judgment question.

Senator COCHRAN. Do you favor the enactment by the Congress of a balanced budget amendment?

Dr. RIVLIN. I have not favored that in the past because I don't think we should be just writing into the Constitution some desired goal; I think we ought to be doing it. And I believe the government has all the powers that it needs right now to get the budget deficit on a sensible downward path.

Senator COCHRAN. Mr. Chairman, my time is up on this series. I would like to ask a few more questions—

Chairman GLENN. Go ahead and conclude your questions.

Senator COCHRAN. Thank you.

I had another question about the regulatory burden that is imposed on the economy by the Federal Government. I wonder the extent to which you foresee the Office of Management and Budget trying to conduct an economic analysis of regulations as they cross your desk. In the past, I know OMB has undertaken the responsibility to review regulations, and in the words you used earlier today, to see that they don't conflict with other regulations that are already on the books from other agencies.

Do you see the responsibility to include an economic analysis in terms of what the economic impact of the regulations would be on business or on consumers or on inflation that could affect the consumers' buying power?

Dr. RIVLIN. Wherever the locus of responsibility is for doing that, when you are adopting a new set of regulations you have to think about what are the goals of these regulations and what are the costs. Unlike direct spending programs, regulatory costs are imposed on other people, on consumers, on business, or on labor, and that has clearly got to be part of the decision.

Senator COCHRAN. Well, in view of the fact that the director-to-be answered a question that I asked about the Competitiveness Council in his confirmation hearing 2 days ago by saying that the Competitiveness Council would cease to exist in this new administration. I wonder where in the administration we might find someone who will assume the responsibility to analyze the regulations from an economic impact standpoint, or if that will be abandoned entirely?

Dr. RIVLIN. I don't think it will be abandoned entirely. I think the discussion will be the locus of responsibility for doing that, and OMB will certainly play a role.

Senator COCHRAN. Well, will you play a role? Is that something that you understand?

Dr. RIVLIN. If OMB plays a role, I'll play a role, but the mechanism in OMB, or the focus of responsibility, is clearly OIRA.

Senator COCHRAN. The Office of OIRA that comes under OMB?

Dr. RIVLIN. Right, Information and Regulatory Affairs—a new set of initials I've just learned.

Senator COCHRAN. We are glad to have some new ones to learn.

The importance of that, I think, is something that ought to be emphasized, at least in the view of this Senator. Given the burdens that we see the government placing on business and industry and consumers and the economy by the regulatory process of government, somebody needs to be looking at that.

I recall there was a move in the Senate to enact legislation that would require an Economic Impact Statement. We hear about Environmental Impact Statements, but this would require an Economic Impact Statement to accompany every bill that was to be presented to the Senate, so that Senators would be aware of what the economic impact of the enactment of that law would be before it could be passed. At the time, it was considered a good idea to extend that to the regulatory process as well. So that before government issues a regulation, it take into account and analyze the economic consequences of its regulatory actions before the fact rather than afterwards.

So I am hoping that this administration will take seriously the responsibility for analyzing the regulations before they are issued, to see what the economic impact will be. I hope that is something that is important to you.

Dr. RIVLIN. I think all of us would share that.

Senator COCHRAN. In budgeting on an annual basis, the concept of zero-based budgeting has been advanced. I know that Senator Dorgan asked Congressman Panetta a question along this line 2 days ago. Is this a good idea to try to adhere to a zero-based budgeting concept, or is it flawed in some way that makes it impractical?

Dr. RIVLIN. I think it is impractical, but the spirit of it is right, and this goes back to what I was saying in the exchange with Senator Roth very early on. I think we ought to regularly review the performance of programs and evaluate what is being accomplished by government spending.

On the other hand, if you try to do this for all programs every year, it becomes impossible, mind-boggling, and there are some programs where we are not saying to ourselves every year, do we need it—do we need an Army? Of course, we need an Army. The interesting questions about the Army are not do we need it or not; they are exactly how should it be structured. So I think if zero-based budgeting means you look at whether you need something at all every year, it doesn't make sense. If it means that you evaluate very carefully whether things are effective or not, then it does make sense.

Senator COCHRAN. In your proposal that some of the responsibilities that government is now undertaking should be shifted back to the States or given to local governments, is there included any proposal to shift revenues back to the State and local governments

from the Federal Government, to share with them some means of taking care of those responsibilities?

Dr. RIVLIN. Yes. Part of my proposal was this notion of common shared taxes, that instead of every State on its own, that we have some taxes which are common and shared by the States. I think that would strengthen State revenue systems.

Senator COCHRAN. So often the Federal Government is requiring States to do things, like come up with minimum financial support for our Medicaid and Medicare programs. In my State, for example, I am told by members of the legislature that they are really hard-pressed to come up with the funds to take care of their mandated responsibilities by the government. This problem is rapidly getting worse. I worry that we make bankrupt some states if we impose any more new responsibilities on them without the means to pay for these programs.

Dr. RIVLIN. I think that's a real worry. The mandates have been a very serious problem. They are a serious problem within States, and from the States to the local governments as well.

Senator COCHRAN. Thank you.

Mr. Chairman, thank you very much.

Chairman GLENN. Thank you, Senator Cochran.

Let me just follow up on Senator Cochran's comments on the rules and regulations. I just ran for reelection this year, and one of the biggest differences that I noticed in retrospect, looking back on the campaign overall, is that almost every time I spoke someplace, there would be a businessman or two come up and talk about the onerous rules and regulations. That had not happened in previous elections. And these have grown enormously. And there are people saying it isn't worth starting a new business now because of all the rules and regulations—and not all Federal; some local, some State, but most of them pursuant to something that was originally passed here at the Federal level, and then the States went a step further or whatever.

Our big objection to the Council on Competitiveness is not that rules and regulations were being looked at and second-guessed and seeing what kind of efficiency they were engendering or not engendering, but as Senator Levin said, it was the fact that it was being done in closed session, with no agenda; nobody knew who the witnesses were, and nobody even knew who was at the meeting. It was all kept very quiet. And then OIRA just happens to get the word that, "Well, our advice would be to do this."

I asked Mr. McRae, who was the acting head of OIRA—less than a year ago, we had a hearing here, and he was sitting right where you are sitting—and I asked him can you tell me one single case where the Council on Competitiveness has recommended something you have not taken and acted on and done it? And he sat in rather embarrassed silence for a little while and said he couldn't think of any right then, and he'd get back to me with a letter later on, which we have never received to this day.

So I think some of the reporting that was done in the *Washington Post* and the *New York Times* about what was really going on, and the special influence-peddling that came through that Council of Competitiveness, I can only assume that it was true.

I went over to see the Vice President, and so did Senator Levin, and tried to get this process opened up so the people of this country would know that it was fair, and we were unable to do that.

So I guess I would summarize this by saying I'm a big fan of regulatory review; I think it is needed. I think sometimes we write legislation here on the Hill, as you are well aware, that is so nonspecific that the rules and regulations writers in their zealousness sometimes over there just go wild on writing rules and regulations, and they have to be reviewed to make sure that down the line the economic impact that Senator Cochran is talking about doesn't inundate a business and cause far more problems than was ever intended when it was passed. So I would just toss that out as a comment on the Competitiveness Council.

I believe Mr. Panetta the other day commented that he thought the Vice President was going to chair some similar organization. Can you tell us any more about that?

Dr. RIVLIN. No, I can't, and I think that is certainly still to be worked out.

Chairman GLENN. Well, it was not specific as to whether it was going to be something that dealt with rules and regulations or whether it was going to be a separate council of advice on real competitiveness, international competitiveness, or exactly what it was going to be.

Dr. RIVLIN. I think I can assure you that that decision hasn't been made.

Chairman GLENN. OK, fine.

Also, Senator Cochran just mentioned zero-based budgeting. One of the first big issues I got involved in when I came on this Committee—I'm beginning my 19th year—was when Abe Ribicoff was Chairman of the Committee, and Ed Muskie was on the Committee at that time as well, and he was a very big proponent of zero-based budgeting. And I worked with him some at that time, and we actually passed legislation out of this Committee. Now, we had it not where you would do zero-based budgeting every year, but where we'd do it on sort of a rolling basis so that every function of government came under a zero-based review or a sunset review. We first started out with 4 years as an objective. That got too complex, and we finally settled on 10 years, as I recall.

Now, surely, with a SWAT team from GAO and OMB and somebody, we ought to be able to review the functions of government once every 10 years and do in effect a zero-based review or a sunset review.

Would you favor that approach, or do you think that's a waste of time?

Dr. RIVLIN. I would favor that approach as long as it doesn't get too mechanical. Some things need to be reviewed more frequently than other things. I think all of these systems—planning, programming, budgeting, managing by objective, zero-based budgeting—had the fault that they tried to impose a single system on the whole government, and that doesn't work very well.

Chairman GLENN. I think until we get around to sunseting these functions so they have to be considered and have to be reauthorized, whether by sunseting or zero-based budgeting—say your budget for next year is zero, and now sit at the table, and let's re-

build it item by item and see what is worthwhile—we never get around to that. We have a little hearing here once a year on our oversight responsibilities and try to get into as much detail as we can, but we don't do nearly the job we should.

I favor the biennial budgeting; that would give us a year to do oversight.

Dr. RIVLIN. Yes; that would give you more time to do that.

Chairman GLENN. Yes. Then we could get into these things and really do some sunset and zero-based budgeting things, I think.

We have biennial budgeting on the Armed Services Committee now, but of course, that was sort of an experiment, and it gives us a little better handle on things, but you have to do it on a broader basis than just one committee.

Dr. RIVLIN. That's right; you have to do it for appropriating as well as authorizing.

Chairman GLENN. On a different subject, you used the term a little while ago, "social insurance." I want to explore that just a little bit. There have been some proposals way back, to go back to some of the very early concept of Social Security, that it be an income insurance program—not the kind of program that we have now, where everybody pays in, and they actually get back about three times more than they have paid into it, I believe is the average, if I'm not mistaken.

Were you referring to an income insurance program that would be like fire insurance or automobile experience, where you don't expect to get anything back as long as your income is above a certain level, but it is an income insurance program? Were you referring to that?

Dr. RIVLIN. No, I was not. I was really making a distinction between means-tested programs like AFDC and food stamps, where you must show that you are poor to get the benefit, and a program like Social Security. You don't know whether you are going to need money in your retirement years or not, but everybody pays into Social Security, and everybody is entitled to benefits. It is not means-tested.

I think one of the strengths of Social Security has been that it is not a welfare program; it is a program for everybody. While one might change it in certain ways, I was simply expressing the view that turning it into a welfare program or a means-tested program is not desirable. I think it is undesirable.

Chairman GLENN. Several years ago, in light of the S and L situation and what happened there, I asked for a study to be done by GAO on the high-risk areas and what the unfunded liabilities of government are. The figure they came up with in OMB—and a separate study came up with approximately the same figures—was that unfunded liabilities, insurance, guarantees, and so on, across the board totalled for the Federal Government some \$6 trillion—\$6 trillion. That is an enormous potential liability. And nobody expects all the programs to go bad at one time, of course. But we follow this every year, and GAO follows up on it, and they have done a whole series of things on these high-risk programs, and OMB has had their sort of SWAT team approach to this thing to deal with some of these high-risk areas and put teams in to really

look at areas that they thought were getting dangerously close to the brink of being an economic disasters.

What are your views on that? Do you plan to continue that, or have you had a chance to look into that, and what are your thoughts on this potential unfunded liability that we have?

Dr. RIVLIN. Those are really two different questions. The SWAT team approach, or the high-risk approach has been useful, and tentatively, at least, I think we would intend to continue. It has involved both the management and the budget side of OMB and has had some useful accomplishments.

One would hope that there would come a time where there weren't these emergencies and things that were really critical, and it is important in addition to the kind of SWAT team/high-risk approach to be putting in place systems that will prevent these situations from developing. But I think we intend to work on both.

Chairman GLENN. This Committee has taken the lead in some of these areas in efficiencies in government. One of the mandates that is written in our jurisdiction is that we are to oversee the efficiencies of government, which some people have joked is an oxymoron statement in itself to say "efficiencies of government." I don't look at it that way.

Dr. RIVLIN. I don't believe that.

Chairman GLENN. We have taken it very seriously on this Committee. We started way back, not long after I came on the Committee, with the IG Act of 1978, I believe it was, which established—there were a few IGs in government that had already been established by the initiative of people in some of the agencies—but we established it for the first time in 12 agencies, we expanded it twice later on; the last time was about 3½ years ago. And we now have IGs in 60 different departments and agencies of government. Now, they haven't been perfect, but I think they have been a tremendous benefit, and it is a real step in the right direction.

In 1991, if I recall the figures correctly, the IGs collectively successfully prosecuted through the Justice Department 6,177 cases and got back close to three-quarters of a billion dollars—and that's just a toe in the door. We are really just beginning in that area. So that is one tool.

The other thing that the Committee did, too, was pass my legislation, which is now law, the CFO or Chief Financial Officer Act, which does not deal as much with the illegalities as it does with seeing that efficiencies in every department be brought in.

The administration backed that approach, and we worked with Mr. Darman and Mr. Bowsher in getting that through. But one of the disappointments was that too many of the people assigned to be CFOs in the different agencies were given that as collateral duty instead of making it the important position that we thought was very important.

Both the IG and the CFO Acts we wrote with those people reporting not only to their agency head or their department head, but also with the requirement that they report to the appropriate committees of Congress so we can know what is going on as far as the efficiencies go.

I think those two things are wonderful tools for you at OMB to really get into this "M" or "management" in OMB. We have joked

in past years that the "M" in OMB has stood for "moribund" instead of "management." But there have been some changes made, and we are moving forward slowly in that area—I have got to give the administration some credit—but not enough. I think this is one of the most important functions that you will be dealing with over there, so I hope we have given you the tools, and if you need any other tools like that or legislative activity here to help give you what you need to do the job over there, why, we stand ready to do it.

Dr. RIVLIN. Thank you.

Chairman GLENN. I wanted to follow up on another thing Senator Cochran was asking about earlier today, and that is your exact position—I'm not sure I understood this—have you and Mr. Panetta worked out what the wiring diagram is going to be, or is that still yet to be worked out? In other words, you are the deputy under Mr. Panetta, and then we have under you and Mr. Panetta "Budget" and "Management" as two wings of this—is it that type of line authority you have, or are you in one of these wings reporting directly to Mr. Panetta? Exactly what is it?

Dr. RIVLIN. Well, as I understand it, I am the "general deputy," and my concerns have to be everything that are the director's concerns.

Chairman GLENN. OK. So you would be directing both management and budget functions under Mr. Panetta?

Dr. RIVLIN. That's right, but we will have to work out exactly how we do it. Success depends on having a team that works well together.

Chairman GLENN. I agree with that, certainly. But I didn't quite understand—and it wasn't clear with Mr. Panetta the other day, either. We didn't have much time to get into real detail there. But my main concern is that we not do what has been done so much in the past, which is concentrate so much on budget—and I know you are up against deadlines, you have to get the figures out, you've got to get them up here so we can start—and we put those management things off until a little bit later, because they are not quite as pressing, and we never get around to them.

Dr. RIVLIN. I share that concern.

Chairman GLENN. The management functions of government are something that we really, really have to get into.

Contract management. I'd appreciate your views on that. This gets back to the 100,000 people being let out of government. In some of these agencies now, their functions have become so complex that they can't really do the job, and they contract outside with people to do the job for them. I don't disagree with some of the contracting out, but David Pryor has headed our efforts on this Committee to look into that and has done a great job in that area. And the contracting out has become so expensive and so big and so massive that I don't know how you'll take that on.

Do you have any comments or thoughts on that?

Dr. RIVLIN. Only that I think it is an important issue—and again, there is no generalization. Some contracts are sensible ones, and some functions could be performed more efficiently in-house than by contract. We will certainly be looking at that.

Chairman GLENN. Well, if it's a temporary thing where they have to go outside for a study or something, I fully understand that. But I'm afraid we've gotten so accustomed to using outside contractors that, as we had testimony here one day, one of our departments said they could not operate their department now themselves without the contractor that is in there and has been there for years, helping them with some of their administration and so on—and that's an outside contract.

This Committee also has jurisdiction over the District of Columbia, and you headed up that commission that studied the District's operation. Do you have any words for us on what you think should happen there? What steps would you recommend that the District Government take to reduce its spending and increase revenue and whatever else?

Dr. RIVLIN. I chaired a commission which reported in November 1990, so it has now been more than 2 years. We provided a long list of recommendations to the then incoming Mayor of the District of Columbia. Those have been taken seriously within the administration of the District; some of them have been put in place, others have not. The District has a mounting deficit. It, too, is suffering from a slow economy. The only general comment I can make is that much needs to be done to put the District budget into a healthy shape.

Chairman GLENN. Well, they are in some trouble, and as I understand it, they are going to ask for more money from the Federal Government, a supplement in, I think, one of the areas, particularly in the area of retirement pay, I believe, it is, that is so underfunded.

Dr. RIVLIN. That's a very contentious issue because the Federal Government turned over to the District at the time of home rule its pension system, which it had been operating for the District because the District was essentially part of the Federal Government. The system was seriously underfunded at the time, and there is debate over how much of this problem was inherited by the District and how much has been created since.

I think there is no question that there is some truth on both sides, but it is a very complicated accounting question.

Chairman GLENN. Yes. I'm sort of hopscotching around in a number of areas, sort of winding up here, things I wanted to get your comments on, so I'm not following any one particular line of questioning.

Do you favor line item veto for each agency, showing contracting and consulting expenditures so we know exactly what they are?

Dr. RIVLIN. I hadn't thought—line item veto, or just line-iteming the—

Chairman GLENN. I'm sorry—line item for consulting and contracting expenditures.

Dr. RIVLIN. I'd like to reserve judgment on that, Mr. Chairman, if I may.

Chairman GLENN. Fine.

Going back macro again for a moment, in your pre-hearing questions and answers, you point out that the U.S. productivity growth rate, which is so important to us, was great, going along fine, moving up almost every year from the 1940's up until about 1973,

and then all of a sudden, after 1973, we have been almost flat in the water for the last almost 20 years. What happened? Did we not put money into R and D? Was it education standards compared to others were let down? Was it that too many CEOs were looking at 3- to 5-year bottom line and didn't put the new investment into plant that they should?

How do we improve productivity?

Dr. RIVLIN. Exactly why productivity slowed down has been a matter of very lively discussion among economists for some time. All of the things you mentioned are probably part of the explanation, and some others as well. Some of it remains a mystery both here and abroad. We were not the only country that suffered a productivity slowdown in the seventies; it was universal among the industrial nations. It is not clear exactly why this happened.

There is more consensus about it for the future, and that is, again, a whole list of things. There is a broad view that we need more investment, public and private; we need to improve the skills of the labor force; we need more research and development. All of those things can contribute to productivity growth, as well as some management improvements.

Chairman GLENN. There has been considerable writing in the newspapers over the past week or so as a result of one of the other confirmation hearings about how long people would recuse themselves from their previous business interests. I asked Mr. Panetta about this the other day, since one of the other hearings had indicated the person seeking confirmation said that he would recuse himself for one year from previous business interests. That caused some consternation, of course, and I asked Mr. Panetta what his view would be, and his reply the other day was that—I said that he had been in the Congress, and I knew he didn't necessarily have any conflicts there, but he would be hiring a lot of people at OMB who do come out of business and industry and so on, and what would be the standard he wanted to set for them. His answer was: "I would ask my employees to recuse themselves for the duration of their employment"—duration of employment, not just for one year. "I think you can't limit the conflict issue. It has got to be for the duration of their employment, and that is what I would ask of my employees."

What is your opinion of that?

Dr. RIVLIN. It sounds like a good answer to me.

Chairman GLENN. All right, good. That will be your policy, then, that anyone that you employ over there, you would want them to recuse themselves from previous conflict of interest.

Your own situation is one where you have been on several boards of directors and so on. If there is a matter that involves them directly, or that would be of particular benefit to them—benefit or detriment; either way—would you recuse yourself from working on that particular issue?

Dr. RIVLIN. I would. I would seek advice of counsel as to what exactly constituted a conflict, and I think it has to be fairly direct; it can't just be the indirect effects of general economic change, or something like that.

Chairman GLENN. All right. I want to come back to the management thing—and I am just about to conclude this hearing—but I

think we have a chance to really get into this management thing and really do some good for government and for the taxpayer, and for everybody. I mentioned in my opening statement just a few little examples that you may recall—that Farmers Home Loan has \$20 billion out, \$7.6 billion bad. They are just marking it off. And the testimony last Friday was that in many cases, they are marking that off, forgiving the loan and renewing new loans to the same people who just defaulted. Now, that cries out for a little management.

In the Student Loan Program, we had asked them to do some work in that area, and they say the records are so poor that it is difficult to know what the true situation is.

Bank insurance funds, to some extent the same thing.

RTC funds—that is up in the air right now as to what the real situation is.

Pension Benefit Guaranty—the records, once again, are so poor that we don't know what is going on.

Medicare—\$2 billion paid out that the companies should have paid, not the Federal Government.

Those are all things under the lending and insurance issues that Mr. Bowsher briefed us on that just cry for better management. Contracting issues; defense weapons system acquisition, they think is in a shambles. DoE, under their contract management system, all these different sites are managed by contractors, and we are into a \$160 billion cleanup program with the nuclear weapons complex out there over the next 20 to 25 years. It is just going to have to be better managed than it has been up to now.

EPA has collected only 10 percent of the \$5.7 billion classified as recoverable. And there are accountability issues—defense inventory management, which I mentioned earlier here. Ten years ago, excess inventory was estimated to be \$10 billion; now they estimate it is up to \$40 billion.

IRS receivables—last year, they said there was \$110 billion owed to the government of which \$37 billion was actually collectible—it wasn't just from bankrupt firms or individuals. There has been a little progress there. They say this year, they estimate that the collectible right now to IRS is \$30 billion. That is what should be collectible right now.

When you put all these things together, it just shows a real lack of management in government that we just have to correct if we are going to make this the efficient type operation we should.

This isn't a question; I just wanted you to be aware of some of the things that the Committee has been doing, looking into some of these areas. I told Mr. Panetta that I wished that the President-elect was trying to keep people in office so they can get a job done, beyond 21 months, as hard as he is looking at the 5-year period after their employment has ceased. We can have all the laws on the books, but unless we have good people to administer them, it isn't going to mean anything. And if we have good people to administer, then you can have a rather elementary law, and you will still have good government. It is sort of like the Rickover business—give them authority and some real tough-minded person to do the job, and we can get it done.

So I guess I would finish up by saying that's the type of people we hope that you and Mr. Panetta each will be in your administration of these things and in putting some "M" back into OMB.

Dr. RIVLIN. Good. We are going to try, Mr. Chairman.

Chairman GLENN. Good.

Senator Cochran, do you have anything further?

Senator COCHRAN. No, I don't, Mr. Chairman. I congratulate Dr. Rivlin for her nomination and wish her well as she assumes the duties of this office. I am confident this Committee is going to recommend that she be confirmed, and I predict she will be without a dissenting vote.

Dr. RIVLIN. Thank you.

Chairman GLENN. I think that is probably a correct prediction.

We look forward to working with you on these things, and I am very serious about this; if we need new legislation or anything, let's talk about it, and we can work together on these things.

The Committee record will be kept open in order for Members of the Committee to have the opportunity to submit additional written questions to you, and we would appreciate your prompt attention if there are such requests.

You've been very patient, and your stamina has been excellent here this morning, I must say. It is 1 o'clock, and we'll end the hearing now and look forward to getting the vote of the Committee on your nomination just as quickly as we possibly can.

Thank you.

Dr. RIVLIN. Thank you, Mr. Chairman.

Chairman GLENN. The hearing will stand in recess.

[Whereupon, at 1:00 p.m., the Committee was adjourned.]

APPENDIX

RESPONSES TO QUESTIONS FROM SENATOR MCCAIN BY DR. RIVLIN

Question 1. As Governor of the State of Arkansas, President Clinton successfully used the line item veto to reduce wasteful spending. Earlier this week Congressman Panetta also stated his support for enhanced rescission legislation. Would you support enhanced rescission/line-item veto legislation?

Answer. I believe a way should be found to focus the attention of the Congress on items that the President regards as wasteful and require an explicit vote on those items. However, no such mechanism offers a panacea for our overall deficit problem, as some have claimed. Though the discipline offered by such a tool is important, it should not lessen our resolve to deal with the broader choices that Congress and the Administration must make together to put the country on a path toward long-term deficit reduction.

In addition, Senator Bradley's recent proposal of a line-item veto that applies to tax expenditures as well as to direct spending is intriguing, since the "wasteful spending" you refer to can as easily take this form. This concept may be worth exploring as part of any effort to craft line item veto legislation.

Question 2. Widespread news reports this week cast doubt that President-elect Clinton will be able to keep his word on economic issues. Peter Jennings on ABC reported "it became pretty clear that some of the central economic promises made by candidate Clinton may not be kept by President Clinton." Such items as a middle class tax cut and an immediate domestic investment program may not be possible in light of the deficit. What is your assessment of these Clinton proposals?

Answer. Since the President-elect and his economic team are now evaluating these and other specific policy options in developing his economic package, it would be premature for me to offer any view on the precise shape of the plan that will emerge. Contrary to the tenor of these reports, however, I can assure you that the President-elect's package will indeed honor his commitments to make our tax system more progressive and to make the investments in our economy necessary for long-term growth.

Question 3. In the past you have advocated increasing taxes, specifically the gas tax. Do you still support raising taxes to deal with the deficit? If so, what taxes would you advocate be raised?

Answer. I do believe that taxes must play some role in an overall plan to reduce the deficit. The size of the spending reductions required to reduce the deficit through such cuts alone would be either onerous in the extreme or politically difficult to enact. A broad range of both spending cuts and tax increases should be explored.

Question 4. The President-elect has stated that taxes on the wealthy, defined as those who earn over \$100,000, should be raised. Do you believe that President-elect Clinton will be able to lower the deficit and stimulate the economy by such a limited tax increase? do you think the President-elect will have to advocate other tax increases? If so, where?

Answer. As I suggested in the previous question, a broad range of both spending cuts and tax increases should be explored. Because the President-elect's team is now reviewing a number of options, it would be inappropriate for me to respond more specifically on any particular taxes.

Question 5. At a hearing before this Committee, Congressman Panetta stated that "I am going to take the approach that everything's on the table." Would you agree with this approach? Will you be willing to support cuts in entitlement programs?

Answer. I agree with Director-designate Panetta that all types of spending programs, including entitlements, must be part of the deficit reduction effort.



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Question 6. It has been stated that the President-elect may have known the true deficit numbers before they were released to the public. Did you at any time during the campaign or before Bush OMB officials released their official numbers advise the President-elect on this subject? If so, did you at any time tell Governor Clinton that his figures were too low?

Answer. I did not advise Governor Clinton on specific budget matters during the campaign. Since my nomination as Deputy Director I have discussed with the President-elect the deficit outlook for the years ahead, which as you know has continued to deteriorate in successive estimates made by OMB last January, CBO last summer, and in OMB's projections released a few weeks ago.

Question 7. In the questions asked in advance by the Committee, you stated that the "underlying deficit in the Federal budget is so large that bringing it under control will require all major segments of society to contribute to a sustained deficit reduction effort." Can you be more specific and explain to this Committee exactly what you mean in your statement?

Answer. I mean that the only way to sustain the political consensus needed for the kind of deficit reduction we must achieve is to assure that no group is exempt from bearing some of the burden. It is critical for success that any plan be both fair and perceived as fair by the public.

Question 8. You have stated that you support some reforms in the budget process. Would you support legislation that requires a super majority vote to raise taxes?

Answer. No. I believe that our public officials' natural reluctance to raise taxes on their constituents provides a sufficient brake on new taxes today. Indeed, the fact that Federal taxes have remained stable at about 19 percent of GDP for several decades suggests that our elected officials have a fine-tuned sensitivity to what citizens are willing to pay. I do not think it wise to further constrain Congress' flexibility to explore all options in these matters, particularly at a time of very large budget deficits.

RESPONSES TO QUESTIONS FROM SENATOR PRYOR BY DR. RIVLIN

Question 1. The Federal Government spent \$90 billion on service contracts last year; \$10 to \$20 billion of that was for "consulting" services. Are you aware that we allow contractors to draft congressional testimony, draft Federal regulations, sit in on procurement source selection panels, as well as a whole host of other jobs that most people assume are inherently governmental functions? OFPP finally issued guidance on this matter last fall and I would appreciate your review of this area. I hope we can work together in this area to ensure the government does not improperly employ contractors.

Answer. I look forward to working with you in this important policy area. I appreciate your longstanding interest in services contracting issues, and your expertise.

While it seems to me that the Federal Government can and should rely on the private sector for a great variety of services, clearly some functions are so intimately related to the public interest as to require performance by Federal officials. The drafting of Congressional testimony, as you have noted, is clearly an example of a function that, as a matter of policy, should not be performed by contractors.

As you have also noted, OFPP issued a policy (Policy Letter 92-1) last September that provides guidance to agency officials on precisely what constitutes an inherently governmental function, that is, a function that must be performed by Federal officials and not by contractor personnel. It seems to me that such a policy is an essential first step to eliminating the improper use of contractors by Federal agencies.

Once this policy is fully implemented throughout the Executive Branch, it would seem to me appropriate to assess how well it is being interpreted and applied by the Federal agencies, and what additional measures, if any, are needed to eliminate improper contracting actions.

Question 2. The DOD IG, the DOE IG, and the GAO have all reported that it costs from 20 to 40 percent more to use contractors to perform consulting or professional support work than to use Federal workers. In many cases, the agencies are forced to use contractors because of artificial personnel ceilings. Wouldn't it make more sense to give agencies the flexibility to get their work done in the most cost-effective manner?

Answer. It is not at all clear that personnel ceilings have played a significant role in agency decisions to contract out. While such ceilings have been used in the past to limit Federal employment, in recent years there has been no government-wide limit on employment. The Department of Defense, which accounts for 40 percent of Executive Branch civilian employment and 80 percent of commercial activities, is not subject to personnel ceilings. To the extent that employment has been con-

strained, it has been primarily the result of funding limits rather than personnel ceilings.

Nevertheless, concerns have been raised as to whether real or perceived personnel ceilings have resulted in contracting out where it may not be cost effective or where government cannot adequately oversee contractor performance.

In my opinion, agency managers should be given greater flexibility generally, provided that such flexibility brings with it accountability for measurable results.

Question 3. The Federal Government does not know who else its contractors work for and thus continually runs into conflict of interest problems. Would you support a better managed system for discovering and disclosing potential conflicts of interest between government contractors and their private clients?

Answer. I understand that the OFPP issued a policy (Policy Letter 89-1) two years ago that addresses many of the problems associated with contractor conflicts of interest. It requires among other things that contractors who are the apparent successful bidders on Federal contracts certify as to the nature and extent of any conflicts of interest that may exist with respect to the proposed award. The policy also requires that marketing consultants not only identify their other clients but also certify that they have provided no information to the contractor employing them that would give the contractor an unfair competitive advantage. These appear to me to be reasonable requirements but because they are only now being reflected in procurement documents, their effectiveness in eliminating abuses is not yet clear.

I understand that OMB has asked the Inspectors General to assess that effectiveness, and to assess the degree to which agencies have implemented these policies. Those assessments are expected within the next few months. I think, once received, the views of the Inspectors General will be helpful in determining what, if any, additional actions are required. I am, of course, concerned that whatever management systems are put into place in this regard are both effective and cost-effective.

Question 4. The President's Council on Integrity and Efficiency is chaired by OMB. The PCIE has the potential to be a more active player in addressing government fraud and waste, as well as overseeing IG activities. Do you think PCIE is helpful to OMB? Do you plan to continue to use it as a resource?

Answer. Over the years, the PCIE has been very helpful. The Presidentially appointed/Senate confirmed Inspectors General (IG), who make up the PCIE, have been a major force in reducing and preventing losses due to fraud, waste, and mismanagement and in increasing the efficiency and effectiveness of government programs. The PCIE has greatly improved the effectiveness of the individual IGs by undertaking programs to improve the level of their performance. Examples are the articulation of standards for audits and investigations, the conduct of peer reviews to ascertain adherence to those standards, the organization and provision of training, and providing forums for exchanging ideas. The PCIE also undertakes joint audits and investigations of issues that affect more than one agency. Examples are audits to determine abuses in the Federal Employees Compensation Act program, or reviews of government property held by government contractors. It provides counsel to OMB on emerging problems that OMB should be aware of and might want to take action on. I therefore view the PCIE as a resource that should be maintained, and indeed strengthened.

Question 5. For several years, Presidents Bush and Reagan have used the Postal Service as a source of funds for deficit reduction purposes. The Postal Service has had to make direct payments to the Treasury for retiree health insurance and COLAs totaling hundreds of millions of dollars. Do you think it is fair to those that use the mail to have to pick up such a large portion of the deficit reduction tab?

Answer. The Postal Reorganization Act of 1970 established the U.S. Postal Service as a fully self-sufficient Federal entity. Postal revenues were to cover the full costs of postal operations. In the 1985, 1987 and 1989 Reconciliation Acts, Congress directed the Postal Service to pay for some of the retirement and health benefit costs of its annuitants and their survivors that the Federal Government had been paying. In the Omnibus Budget Reconciliation Act (OBRA) of 1990, the Congress directed the Postal Service to:

(1) fund the Civil Service Retirement System (CSRS) COLAs and the employer's share of Federal Employee Health Benefits (FEHB) for postal annuitants who retired after June 30, 1971, and their survivors; and

(2) make annual payments to reimburse the Federal Government for those retroactive retirement and annuitant health benefit costs the Postal Service would have borne had the 1990 OBRA been in effect as of July 1, 1971.

It is true that these various Postal payments have reduced the Federal deficit as they were made, and will continue to do so in the future. However, these increases in Postal Service payments were apparently intended to fund fully the retirement

and annuitant health benefit costs of Postal retirees and their survivors. This would appear consistent with the intent of the 1970 Act that Postal Service revenues, rather than tax revenues, cover the full costs of postal operations.

Question 6. Every year, the Postal Service received a revenue forgone appropriation that makes up the difference of reduced-rate mailed within a county, and free mail for the blind. Recently, though, the budget baseline has been reduced to far less than what is needed to fully fund this appropriation. What is your position on the issue of funding revenue forgone?

Answer. Over the past several years, the appropriation to subsidize mail rates for selected groups has been subject to the same budgetary pressures as other Federal discretionary spending programs. In the 1992 appropriation, the Congress enacted specific reforms for third-class subsidized mail that helped support a reduction in the total subsidy. For 1993, the Congress reduced the appropriation of \$123 million but directed that the Postal Service continue to pay the subsidy with other Postal Service funds. The Postal Rate Commission has also proposed various options to eliminate abuses and implement other reforms of these current postal subsidies in its 1986 study and an updated 1991 report. The 1994 discretionary spending caps will again require a careful review of all Federal discretionary spending, including the funding for postal reduced mail rate subsidies.

Question 7. Before 1990, the government share of the premiums for the Federal Employees Health Benefits Program (FEHBP) was determined by the "Big Six" cost-sharing formula. When Aetna withdrew from the program in 1989, Congress modified the Big Six formula and adopted a "phantom" premium for the missing Aetna plan. The temporary formula expires in 1993. Do you favor another temporary extension of the "phantom" formula, so that we can have time to [review] this program in the context of the larger health care/insurance issue?

Answer. I am not in a position to support or oppose extension of the "phantom" big six formula for FEHBP at this time. Because this issue has substantial budgetary consequences, I can assure you that it will receive early, priority attention. If there is not a temporary extension of the "phantom" formula there will be a cost shift from the Federal Government to the employees. On the other hand, I am advised that the current baseline assumes expiration of the formula so that, if the formula is extended, offsetting reductions in other areas would have to be found. As both Director-designate Panetta and I stated in our testimony before the Committee, all such questions should be on the table.

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